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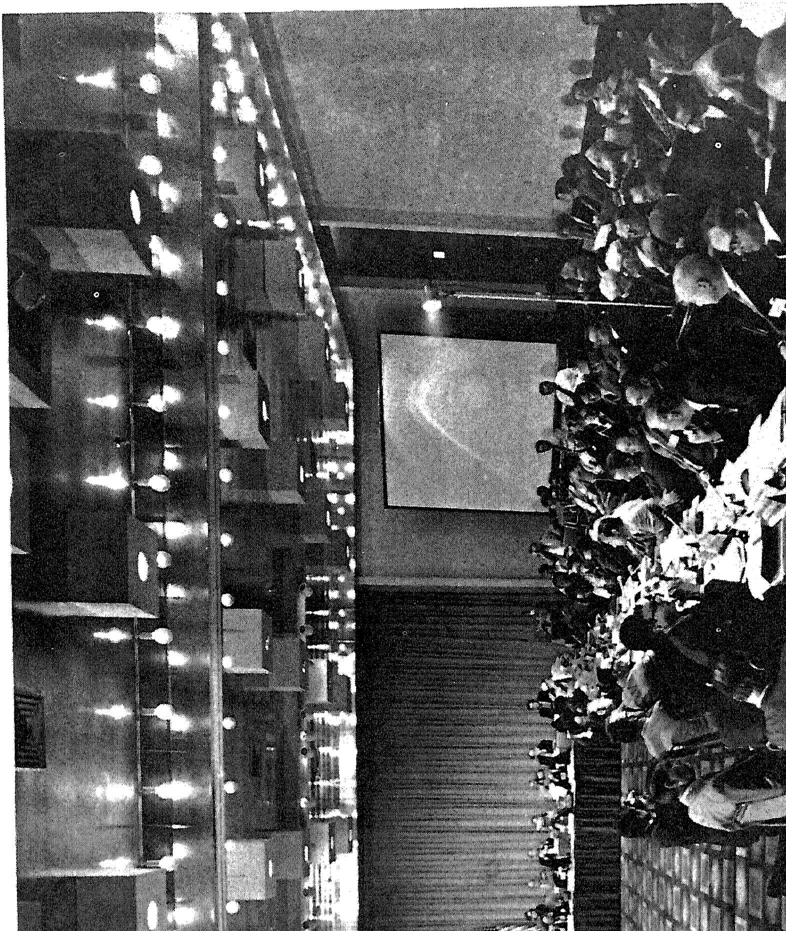
THE
HOUSING AND CONST
CONFERENC
ON INFLATIO

James T. Lynn

Secretary,
U.S. Department of Housing
Urban Developmen

Chairman



TO THE PRESIDENT AND MEMBERS OF CONGRESS,
CONFERENCE ON INFLATION:

I am pleased to transmit herewith the form
Housing and Construction Conference on Inf
on September 12, 1974, one of a series of
leading to the Conference on Inflation, Se

Assembled at the Housing and Construction
representatives of government, home builde
construction contractors, materials suppli
housing and construction lenders, real est
state and local housing authorities, rural
associations, minority interest groups and
organizations. Also included were indepen
academic authorities on housing and constr

At the call of the President, as set forth
delegates on August 30, 1974, the Housing
Conference discussed the present economic
special emphasis on the current state and
the housing and construction sector. The
on the particular problems imposed on the
inflation and on the possible solutions to

The formal record of the Housing and Const
includes the transcript of the meeting, al

Participants

Housing and Construc
Conference on Inflatio

Participants

HOUSING AND CONSTRUCTION CONFERENCE ON

Atlanta, Ga., September 12, 197

CHAIRMAN

James T. Lynn
Secretary of the U.S. Department of Housi

CONGRESSIONAL PARTICIPANTS

ASHLEY, Thomas L. (D)
Representative from 9th District of Ohio

BARRETT, William A. (D)
Representative from 1st District of Penns

BIDEN, Joseph R. (D)
Senator from Delaware

BROCK, William E. (R)
Senator from Tennessee

BROOKE, Edward (R)
Senator from Massachusetts

CONABLE, Barber B. (R)
Representative from 35th District of New

TALMADGE, Herman (D)
Senator from Georgia

BLOUGH, Roger
Chairman of the Construction Committee

BOWLES, Lloyd, Vice President
United States League of Savings Associations

BRATTI, Ron, President
American Subcontractors Association

BROAD, Eli
Chairman of the Board
Council of Housing Producers

BURNETT, John G., Director
Council of State Housing Agencies

CALLAS, Michael G., President
Associated Builders and Contractors, Inc.

CARLOUGH, Edward, General President
Sheetmetal Workers International Union

CENKER, Lewis, President
National Association of Home Builders

CLAYTOR, Glenn A., President
Housing Assistance Council

COLGAN, Robert W., President
National Electrical Contractors Association

COLVIN, M. C., President
National Forest Products Association

CONE, J. L., Jr., President
American Road Builders Association

COUNTS, J. Curtis, President
Contractors Mutual Association

CROW, Trammel
Trammel Crow Real Estate Company
Dallas, Texas

DOHERTY, Joseph B., President
National Association of Realtors

DOLBEARE, Cushing, Board Member
Rural Housing Alliance

DOWNS, Anthony, Dr., Chairman of the Board
Real Estate Research Corporation

EDMUNDS, John, President
American Institute of Steel Construction

EZZELL, William E., First Vice President
Mortgage Bankers Association of America

FOSCO, Peter, President
Laborers' International Union of North America, AFL-CIO

FREELAND, Windell, Vice President
National Urban League

FROMAN, Ronald, Chairman
National Association of Indian Housing Authorities

FUTRELL, William, Vice President for Economic Affairs
Sierra Club

GEORGINE, Robert A., President
AFL-CIO Building and Construction Trades Department

GRILLS, Fred, Chairman
Council of American Building Officials

HENKE, Kenneth, Delegate Member
National Conference of States on Building Codes and Standards

HOLMAN, M. Carl, President
National Urban Coalition

HOLMES, William F., Treasurer
National Association of Building Manufacturers

HOROWITZ, Saul, Jr., President
Associated General Contractors of America

HUBBARD, George M., Chairman of the Board
Merrill Lynch Hubbard

HUEBNER, Carl, Chairman Mortgage Committee
American Life Insurance Association

HUNTER, Oakley, President
Federal National Mortgage Association

JOHNSON, Robert E., Chairman
National Rural Housing Coalition

KAIN, John F.
Professor of Economics
Harvard University

KARL, Max H., President
Mortgage Insurance Companies of America

KUHNE, William, Chairman
Building Division
Associated General Contractors of America

LYONS, John H., President
International Association of Bridge, Structural and Ornamental
Iron Workers

MCKAY, William I., President
National Constructors Association

MADER, Otis, Construction Action Council Executive Committee
Chamber of Commerce of the United States

MAISEL, Sherman, Professor
Graduate School of Business
University of California

MANN, Dr. Maurice, President
Federal Home Loan Bank of San Francisco

MARTIN, John M., President
Mobile Homes Manufacturers Association

MCCRACKIN, Joseph W., Executive Vice President
Western Forest Industries Association

MEURER, Malcolm R., President
Consulting Engineers Council

MIMS, Walter L., President
National Wildlife Federation

MORRIS, William, Director Housing Division
National Association for the Advancement of Colored People

REENE, Charles C. W., Group Vice President/Administration
Portland Cement Association

RICE, James V., President
Producers' Council

ROESSNER, Gilbert, President
National Savings and Loan League

ROGERS, Archibald C., President
American Institute of Architects

ROONEY, Lawrence F., Chairman, Heavy Industrial Division
Associated General Contractors of America

SANSON, Joseph F., President
National Apartment Association

SAUL, B. F. II, President
National Association of Real Estate Investment Trusts

SCHEUER, James H., President
National Housing Conference

SPAULDING, Daniel W., President
National Association of Real Estate Brokers

SPECTOR, Sidney, Vice President
National Council on the Aging

ST. LAWRENCE, John E., President
National Home Improvement Council, Inc.

TAYLOR, Harry P., President
Council of Construction Employers

National Bankers Association

WALKER, J. Hubert, President
National Lumber and Building Material Dealers Association

WARD, Martin, President
United Association of Journeyman and Apprentices of the
Plumbing and Pipe Fitting Industry of the United States
and Canada, AFL-CIO

WHARTON, Hunter P., President
International Union of Operating Engineers, AFL-CIO

WHYEL, George, President-elect
American Bankers Association

WILLIAMS, John B., President
National Association of Housing and Redevelopment Officials

WRISTON, Walter B., Chairman
First National City Bank

WYLIE, Rose, Chairperson
National Tenants Organization

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Summary

ne Housing and Construction Conference on Inflation convened
1 Atlanta on September 12, 1974. Assembled at the meeting were
. delegates representing home builders, heavy construction con-
:actors, material suppliers, organized labor, financial inter-
ediaries, real estate brokers, state and local housing authorities,
ural and urban housing groups, minority interest groups and environ-
ental interests. Also included were independent consultants and
number of the Nation's leading academic authorities on housing.
ne Congress, co-hosts of the conference on Inflation along with
ne President, was represented by four Representatives and four
enators. Chairman of the Atlanta conference was the Secretary
f the U. S. Department of Housing and Urban Development.

ne following summary is a distillation of the views of the
onference participants as presented in (a) 47 formal statements
nd position papers submitted both before and after the conference;
o) the tabulated responses to a questionnaire prepared for the
onference by Louis Harris and Associates, Inc.; and (c) the oral
:atements and discussion during the conference.

ne full text of each statement and position paper, the entire
:anscript of the conference and the tabulations for each question
1 the Harris questionnaire will be printed as a part of the
omplete report on the conference which will be available at
ederal depository libraries throughout the United States and at
ne Department of Housing and Urban Development.

ne position papers and the conference discussion, in general,
ocused on specific solutions to the present problems of the
ousing and construction sectors of the economy, although a signifi-
ant number contained analyses of the general economic situation.
ut the most complete exposition of the conference participants'
iews on the general outlook was provided in their responses to
ne questionnaire, which 60 delegates completed and submitted
or tabulation.

<u>IERE WE ARE AND WHERE WE ARE HEADED</u>

. <u>General Economic Outlook</u>

There was a virtual consensus among the delegates that economic conditions would stay the same or get worse in the year ahead. Most expected the annual rate of increase in the consumer price index to range between 8 and 12 percent in the last quarter of this year and to average 10 percent or less for all of calendar 1975. The representatives of organized labor, minority groups and those with special housing needs such as the poor, the aged and the handicapped were more pessimistic, anticipating

1975. Nearly all viewed the rising prices of critical nmodities, particularly of food and fuel, as one of the .mary roots of the present inflation. Most also identified :essive Federal spending and insufficient growth of produc- ity as important sources as well, with the principal :eption of labor and many of those representing the special ising needs groups. Excessive spending by state and local vernments was identified by many, particularly delegates oresenting non-residential construction companies. The flationary impact of government regulations that impede oductivity growth also was cited by a significant number delegates, particularly those in non-residential construction. ne of the delegates, mainly those representing financial :ermediaries, cited an excessive rate of growth in the money oply as a major culprit. Excessive wage settlements were :ed by most of the non-residential construction management .egates and most of the housing producers as well as by a among the special needs groups and the educators and lependent consultants. The labor delegates, a few of the ecial housing needs representatives and educators as well a small minority of the housing producers cited excessive porate profits as another significant inflationary factor.

:h respect to unemployment, most expect an average of 6 rcent or more of those seeking work in 1975 will go jobless. st of the labor delegates, however, do not believe the rate .l go above 7 percent. Most of the heavy construction con- ictors think the rate will stay below 6 percent. But many the delegates representing special housing needs groups resee an unemployment rate next year above 8 percent.

isinq Outlook

ere was a clear consensus at the conference that inflation l a very serious impact on housing construction, that the rrent problems of the housing sector were rooted primarily the high cost and limited availability of both construction ans and long-term mortgage funds, and that little easing in credit situation was expected within the next six months. h prices for building materials and high construction labor ts also were identified as among the most serious problems .fronting the housing sector by a significant majority of questionnaire respondents--although none of the labor pondents identified labor costs as a problem.

pokesman for the housing producers declared that the industry in a depression because of "a collapse of land development

commercial banks, lending to real estate investment trusts, mortgage bankers or directly to builders had $20 to $25 billion committed to housing, he said. "The commercial banking system," he concluded, "cannot afford all the real estate it is about to own." Another delegate, representing a financial intermediary group, said that while credit crunches had caused problems for the housing industry many times in the past, "none of these have come 10 percent of the way in creating the problems we have today."

Nearly all the questionnaire respondents, with the exception of the educator-consultants, indicated that they expected housing starts in the fourth quarter of this year to average 1.3 million units or less on an annualized basis. Slightly more than half the respondents anticipated that starts for all of 1975 would exceed 1.3 million units but no one expected the rate to exceed 1.9 million units. The organized labor respondents were unanimous in the view that the rate would <u>not</u> exceed 1.3 million. The housing producers and lenders were more bullish on starts next year, with a significant number anticipating 1.5 million or more starts.

The Chairman of the Council of Economic Advisers, Alan Greenspan, summarized the bleak outlook for the housing industry in his briefing for the delegates at the start of the conference. The savings outflow from the thrift institutions, he said, was running in excess of $1 billion a month; correspondingly, loan commitments at savings and loan associations had been cut back at a faster-than-normal rate through the early summer, falling from $13 billion in April to less than $11 billion in July. Mortgage interest rates had risen to well above 9 percent in most primary markets. The backlog of unused building permits had declined by 15 percent from April to July and was now 27 percent lower than a year ago. He said it was difficult to believe housing starts will be much above 1.2 million units at a seasonally adjusted annual rate for the second half of 1974 and that any lasting recovery to the 2 million unit level would be thwarted until the rate of inflation has been reduced by several percentage points from current levels.

<u>Non-Residential Construction Outlook</u>

The outlook for non-residential construction described at the conference, while reflecting concern due in part to a rising number of public utility project cancellations, did not present the grave picture drawn for the housing sector. Inflation was

by most, but not all of the delegates. A few of the financial delegates doubted inflation posed any threat to this sector. Organized labor, however, was unanimous in its alarm at the unemployment threat posed by large project cancellations resulting from high borrowing costs. Most of the delegates expected heavy construction expenditures in 1975 to run, in constant dollars, 5 to 10 percent below expenditures this year, with the labor and financial delegates expressing the most pessimism. But most of the delegates representing the contractors foresee no change or an increase, in constant dollars, of from 5 to 10 percent in expenditures next year.

The high cost of long-term borrowing and the limited availability of long-term public and private debt and equity funding on the capital markets were viewed by most of the delegates as the most serious near-term problems for non-residential construction. But the contractors expressed equal if not greater concern about the shortages of critical materials, high labor costs, and environmental restrictions and other government regulations that they consider impediments to greater efficiency.

HAT SHOULD BE DONE: MAJOR SPECIFIC RECOMMENDATIONS OF PARTICIPANTS

any of the delegates, particularly the financial delegates and hose representing special housing needs groups, indicated that, iven the right policies, they felt the rate of inflation could e kept to 6 percent or less next year. But almost all the elegates agreed that any meaningful effort to reduce the rate of nflation is likely to lead to an increase in unemployment. A ajority indicated they felt it is possible to avoid increasing nemployment through proper handling of the fight against inflation. ll the labor delegates and nearly all the delegates of the special ousing needs groups expressed that view. But most of the housing roducers and the financial groups represented disagreed.

he major specific recommendations put forward by the delegates re summarized here.

. Macroeconomic Policies

1. Reduce Federal Expenditures. The recommendation to reduce Federal spending in order to take pressure off the capital markets was put forward more frequently in the statements, position papers and conference discussion than any other single proposal. The questionnaire confirmed that a significant majority of the delegates felt the projected deficit in the Fiscal 1975 Federal budget should be reduced through

delegates agreed although they were evenly divided on the need for reducing the FY 1975 deficit. A significant majority of the delegates also felt the Fiscal 1976 Federal budget should be in balance, although most of the labor delegates disagreed. Nearly all who favored cutting fiscal 1975 expenditures felt it would result in lower interest rates and have a beneficial impact on housing construction.

One labor delegate said that balancing the Federal budget with cuts in spending is apparently "an all-seasons remedy." It was lauded as the cure for our worst price and business deflation in 1932 and 1933, he said, and is offered now for our worst peace-time inflation. "It was not a valid remedy then, and it's not a valid remedy today," he said.

Those who favored spending cuts were divided relatively evenly as to where the cuts should occur and this division carried across most of the categories of interests represented. Many favored more than proportional cuts in defense and foreign aid. This group included most of the housing producers and the special housing needs representatives. Somewhat fewer favored cutting all budget items proportionally and fewer still favored cutting domestic programs more than proportionally. Most of those who felt domestic programs should be cut most, singled out anti-pollution and welfare programs and agricultural and maritime subsidies as programmatic areas where greater than proportional cuts should occur.

One independent consultant suggested that top priority in spending decisions should be given to programs that "maintain or improve the real incomes of low-income households (who are hurt most by inflationary reductions in real incomes) and programs (or subsidies) that increase the productive capacity of the economy and employment simultaneously." Low priority, he said, should go to programs or subsidies that sustain the prosperity of particular industries in ways that raise prices to consumers.

2. Increase Federal Revenues. A minority among the conferees, which included almost all the labor delegates and most of the representatives of the special housing needs groups,

dvocated increasing revenues largely as a way of avoiding
xpenditure reductions in domestic programs they regard as
ital. One representative of a special housing needs group
aid, "I think it is going about it the wrong way to try to
ut out programs which benefit one important segment of the
merican public." She suggested balancing the budget either
y raising taxes, closing tax loopholes or putting on a
emporary tax surcharge.

ne independent consultant favored a tax increase because
e viewed it as necessary to fight inflation. Monetary
olicy alone cannot stop inflation, he said, and budget
uts are largely rhetorical and will never be large enough
o produce the necessary Federal surplus.

majority of the delegates thought personal income taxes
or those earning $20,000 or more were currently at about
he right level. Most also thought corporate taxes were
t the right level, although all the labor delegates thought
hey were too low, in line with their view that there should
e an excess profits tax. Most felt that Federal excise
axes on gasoline were at the right level. All the labor
elegates and almost all the educator-consultants and repre-
entatives of special housing needs groups thought personal
ncome taxes on those earning less than $20,000 were too
igh but more delegates felt the level was about right.

ase Monetary Restraint. Most of the delegates felt that
urrent monetary policy was too restrictive. The repre-
entatives of labor, the housing producers and the special
ousing needs groups were virtually unanimous in that view.
joint statement submitted to the conference by 11 major
ousing producer and supplier groups declared, "it is
angerously foolhardy to pursue policies which, while
esigned to stabilize the economy, actually are destroying
n essential element of the economy, and in the name of
ighting inflation, in reality are helping to fuel it."

aintain Monetary Restraint. Most of the delegates repre-
enting financial institutions counseled continued monetary
estraint until the rate of inflation is brought under control,
lthough they were part of a minority. The position paper
ubmitted to the conference by an association of thrift
nstitutions expressed a representative viewpoint: "The
Federal Reserve) Board of Governors should be encouraged
ot to relax its restrictive monetary policy too quickly,
r pursue policies which will result in a rather substantial
ncrease in money and credit until it is certain that the

independent consultant said that interest rates should be maintained--or even raised higher--until they are effective in reducing the aggregate level of economic activity and thereby inflationary expectations. The Federal Reserve was inhibited from using its full powers against inflation, he said, by its fear of causing massive disintermediation from the thrift institutions. Addressing the problem of disintermediation with separate measures was therefore necessary, he said, in order to give flexibility to monetary policy.

5. Incomes Policies. More of the delegates favored monitoring wage, price and significant government decisions as a means of controlling inflation than any other incomes policy device. Few favored mandatory wage and price controls. Most of those who did were educators-consultants or delegates of the special housing needs groups or housing producers. More favored a voluntary trade of tax reductions for workers in return for adherence to rigid wage guidelines, particularly some of the housing producer and non-residential construction groups. Still more favored voluntary guidelines for price, profit and wage increases, particularly housing producers and financial groups. The labor delegates said during the conference they did not favor any incomes policy device, although one preconference paper submitted by a labor delegate expressed some sympathy for the need to face up to the imposition of controls if inflation is to be controlled. That paper and one other submitted by a labor delegate made it clear, however, that labor would tolerate controls only if they were equitable and covered all income claims in the economy. "Controls cannot take the form of a tourniquet on wages and a band-aid on prices," declared one of the labor representatives.

B. Policies and Programs to Assist Housing Construction

Although a wide variety of proposals put forward were aimed at providing specific aid to housing, three categories of recommendations had the broadest support in the conference: (a) additional direct Federal assistance to the mortgage market; (b) selective credit controls, or credit allocation; and (c) a tax exemption or tax credit for interest earned on savings deposits. Summaries of the proposals in these three areas, and others, follow:

1. Direct Federal Mortgage Market Assistance. A significant majority of the delegates thought it would be advisable for the Federal Government to borrow, or assist in the borrowing (by guarantee, purchasing and selling mortgages, subsidizing re-lending rates, etc.) of additional funds for housing beyond that contemplated by current programs, assuming little

no change in monetary policy and assuming no new govern
tal restrictions on capital market demand from other
tors. Most of the independent consultant-educator dele-
es thought this would not be advisable, offering the
mary source of dissent, along with a significant proportion
non-residential construction delegates. There was little
eement, however, among those who favored it as to what
el of borrowing over a one-year period would be of material
istance yet would not have a material upward impact on
ital market interest rates. The biggest proportion felt
t borrowing between $5 billion and $10 billion would meet
s requirement.

y, particularly among the financial delegates, felt that
e than $10 billion could be borrowed. But some, mainly
ng the educator-consultant delegates, felt that any amount
borrowing would lead to higher interest rates.

joint statement by the 11 home producer-supplier associ-
ons urged that the special assistance program of the FHLMC
expanded. Specifically, enactment of the Senate version
HR 11221 providing an additional $2 billion in borrowing
hority for the Home Loan Bank System was urged. The
ociations recommended that a similar program be established
the Federal National Mortgage Association to assist those
ders it normally deals with such as mortgage bankers and
urance companies which cannot deal directly with FHLMC.

ere was a debate in the conference on the wisdom of
dening the capital markets further through additional
ncy borrowings to assist housing. One position paper
mitted by a financial delegate expressed doubts about
stimulative impact of the Administration's direct mort-
e assistance actions in 1974 and, by implication, the
isability of expanding such assistance. "Federal housing
grams should be geared toward strengthening the private
tor's overall capacity to provide residential mortgage
dit, while directing its direct spending programs to
as where private investor participation is not feasible,"
d the delegate.

niversity economist delegate, in a preconference paper,
ued that those who urge that the Federally-sponsored
dit agencies be cut back because of the pressure their
rowing places on the capital markets have failed to
ognize the inflationary impact of further housing cuts.
said the agencies were a new type of financial inter-
iary whose purpose is to channel existing savings to
as of vital needs.

housing needs delegates were the principal advocates in conference papers and discussions of various forms of credit allocation. A labor delegate in a position paper said that as long as monetary policy remained the sole means of credit regulation, it is necessary to have a selective monetary and credit allocation policy giving priority to housing and other vital national needs. Mortgage rates are high, explained a university economist delegate, in a preconference paper, because other borrowers have better access to credit, which they have gained not on the basis of social or economic worth but through tax laws, past financial regulations and other types of market limitations. "If the decision is to stick with a monetary policy setting credit supplies far below demand," he said, "these supplies of credit can be distributed in a far less inflationary way by use of a more selective system."

The joint statement of the 11 homebuilder-supplier associations advocated enactment of legislation specifically authorizing the Federal Reserve Board to establish variable asset reserve requirements for different categories of loans by commercial banks, thereby lowering those on assets invested in mortgages and encouraging the shifting of funds into housing loans.

Another approach, proposed by a university economist, would require the largest users of credit to be licensed so that any increase in their borrowing for non-priority uses would have to be paid for by a sizeable added license fee.

The Federal Reserve Board and the nation's commercial bankers historically have opposed credit allocation on the grounds that it substitutes the decisions of government agencies for the allocation decisions of the marketplace which they regard as more efficient. A delegate of the commercial banks said that "such compulsory credit allocation schemes would not efficiently channel funds toward socially important areas."

3. <u>Tax Exemption or Tax Credit for Interest Earned on Savings</u>. This proposal was advocated by most of the financial and housing producer delegates. It was put forward in a substantial number of the position papers. Several variations on the proposal were advanced but the most frequent one was a tax exemption on the first $1,000 in interest or dividends earned from savings accounts in thrift institutions, credit unions or commercial banks. A credit or exemption on some unspecified portion of the interest on savings was endorsed by the 11 homebuilder-suppliers associations in their joint statement at the conference.

ne thrift institution economist estimated the revenue loss rom $1,000 exemption would be about $2 billion and "is robably less than the cost of a direct subsidy program to ousing, through an expanded GNMA/FNMA tandem plan, subsi-.zed Federal Home Loan Bank advances to savings institutions, nd/or other direct subsidy programs which may be adopted f the housing crisis worsens."

nother financial intermediary delegate proposed a tax xemption on all interest earned on the lowest-rate passbook avings accounts. He estimated the revenue loss at $3.1 billion, ssuming an average 25 percent tax bracket for savers. He rgued that the exemption would stimulate construction of at east 250,000 new housing units which would generate sufficient ew revenues to balance the loss due to the exemption.

pposition to the tax exemption for savings proposals was xpressed by a university economist delegate who said, in ne conference, that they help the affluent at the expense f the moderate and low-income groups and that he believed ney would be inefficient at attracting new savings into the ortgage funds system, the basic objective.

inimum Denominations of $10,000 for U.S. Treasury and ederal Agency Obligations. The associations representing ne thrift institutions contended at the Conference that ecent offerings of low denomination Treasury obligations ave aggravated disintermediation at thrift institutions and ontributed to the shortage of housing credit. The statement f the delegate of one of the financial intermediary groups as representative. He said: "There can be little doubt nat recent Treasury offerings of low denomination obligations ave resulted in serious dislocations, aggravating disinter-ediation of thrift institutions and the shortage of housing redit."

ncreased Federal Savings Deposit Insurance. The Federal eposit Insurance Corporation and the Federal Savings and oan Insurance Corporation now insure savings accounts up o $20,000. Representatives of the thrift institutions at ne Conference argued that because of the long-term increases n the average size of deposit accounts and also because very dollar invested in Treasury bills, notes, or bonds is uaranteed by the Federal Government, deposit insurance nould be increased to $50,000 in order to blunt this as a actor in disintermediation.

supplier associations in their joint statement, along with some of the thrift institution associations, advocated a mortgage tax credit for investors in residential mortgages but without any change in the present tax incentives enjoyed by thrift institutions with respect to their bad debt reserves as proposed in the Financial Institutions Act pending in Congress. A home producer group, in a preconference paper, explaining the industry's support for the proposal, said: "The existence of a mortgage tax credit, scaled upward in proportion to the extent of the assets of the investor invested in residential mortgages should have a beneficial effect on the availability of funds for residential mortgage lending. It would encourage insurance companies, commercial banks and other potential lenders to put their funds into residential mortgages and to leave them there during times of monetary restraint." One thrift institution group, however, said the proposal needs further study because there are too many unanswered questions with respect to its impact.

7. <u>Deposit Interest Rate Ceilings With Meaningful Differentials Favoring Housing Lenders</u>. The thrift institutions associations declared that changes in Regulation Q ceilings adopted on July 5, 1973 triggered a major shift of funds away from mortgage oriented institutions to commercial banks because the previous 1/2 point interest rate differential between the thrifts and commercial banks was cut to one fourth of a point. An economist for one of the thrift associations reported in a preconference paper that savings deposit growth increased by 20 percent at commercial banks in the 12-month period after the regulatory changes while deposit growth at the thrifts during the same period declined--by 43 percent at savings and loan associations and by 66 percent at mutual savings banks. A delegate representing a thrift group said that the differential, over the years, had helped to moderate the feast and famine nature of the home financing markets.

8. <u>Special Certificates with Tax Deferral Privileges</u>. The savings bonds issued by the Treasury Department provide a tax-deferred feature, but this is prohibited to financial institutions by the Treasury's Original Issue Discount Bond regulation, said a statement submitted by one of the financial delegates. He declared that there are many people who would place funds in a tax-deferred account in a thrift institution. Such an account would provide a flow of longer-term funds into the thrifts providing an additional source for home mortgage investments.

and Loan Accounts. One delegate representing thrift titutions urged a change in Treasury Department policy permit tax and loan accounts to be deposited with thrift titutions as well as commercial banks, where they are now osited exclusively and at no interest cost. The delegate imated that between $7 and $10 billion is on deposit in se accounts at all times. He suggested that the thrifts permitted at a minimum to credit the withholding taxes their own employees for transfer to the Treasury on call.

porary Variable Savings Subsidy. One independent consultant posed a temporary variable savings subsidy as a way of ling with disintermediation. It would provide funds to mit thrift institutions to pay rates on marginal deposits t would be competitive with rates on new Treasury securities.

this proposal, as an example, for every $1 billion in asury bills or notes issued at some spread above the basic t of money to thrift institutions, the Treasury would make ilable to thrifts a subsidy equalling $1 billion times difference between the actual rate on such Treasury urities and the thrift institutions' basic cost of money. s subsidy would enable the thrifts to issue new certificates savers paying a high rate of interest in the same total unt as the volume of the high-rate Treasury issues. s funds for those Treasury issues would not be raised ough net withdrawals from the thrifts, yet the cost to m of preventing such withdrawals would not rise so high to imperil their security." Each institution would be owed a subsidy equal to its fraction of all deposits in such institutions as applied to the national subsidy al.

sion Fund Investments. The joint statement of the 11 e producer-supplier associations advocated legislation ouraging pension funds, as a condition for continuing tax mptions, to invest more of their funds in residential mortes and mortgage-backed securities. There are reportedly 0 billion in pension reserves currently.

iable Rate Mortgages. This proposal had broad support m the financial intermediary groups represented at the ference, both among the thrift and the commercial bank ups. Such instruments would allow the interest rate on standing mortgages to rise and fall with the general level interest rates. One commercial banker said: "This might ourage banks and other lenders to make more mortgage loans, ce they would not be frozen into a portfolio of low-rate standing mortgages when interest rates rise."

not alleviate the current crisis, "they may be helpful in averting future crises." The variable mortgage contract, he said, could eventually correct the structural imbalance which impedes the ability of thrift institutions to compete in a high interest rate climate because of the sluggishness of earnings on their long-term mortgage portfolios.

13. Restructuring Financial Institutions. There appeared to be agreement, in principle, on the need for some reshaping of the Nation's financial institutions following the basic outlines of the Administration's pending Financial Institutions Act (S. 2591). One thrift group delegate told the conference that if the reference in S. 2591 to the phase-out of Regulation Q ceilings is deleted along with a proposal in the bill for eliminating the bad debt reserve allocations authorized for the thrifts, the thrift institutions would support the reform bill. A commercial banker delegate said "the main thing to attack is the structure of the financial services business, which I think is in need of overhaul." He said the financial service business is too compartmentalized and fractionalized with the consumer getting a low rate of interest if he is a small man and a high rate if he is affluent. Housing suffers, he said, because it must rely on a narrow sector of the financial services industry.

14. Revitalizing FHA. One financial delegate urged legislative action reconstructing the Federal Housing Administration as an independent Federal agency.

C. Policies and Programs to Assist Those Lacking Adequate Housing

The delegates representing those with special housing needs as well as the housing producer groups advocated immediate implementation of the sections of the Housing and Community Development Act of 1974 providing direct housing subsidies.

A delegate representing a major low- and moderate-income housing group, called for emergency actions in the area of subsidized housing. He recommended that HUD immediately commit all available funds for the Section 235, Section 236, Section 202, Section 8 and conventional public housing programs.

Another special housing needs group declared in a preconference paper: "We need a balanced housing program--balanced in terms of housing needs. This means priority for low income housing and for rural housing, and particularly, attention to the housing needs of the elderly."

current costs for older persons wi[illegible]

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thority in the 1974 Housing Act for public housing for
dians.

licies and Programs to Assist Non-Residential Construction

Environmental and Safety Standards Enforcement Procedures. One delegate from a field closely allied to non-residential construction said in his preconference paper that the effect of many otherwise commendable legal and administrative regulations was to add incrementally to production costs. The delegate singled out building codes, zoning and subdivision regulations, environmental impact statements and regulations required by the Occupational Safety and Health Act (OSHA). Like many other delegates in the non-residential construction field, he particularly objected to the way that the regulations and standards were administered. Speaking of OSHA, for example, he said that the standards themselves "are only marginally inflationary. They probably represent supportable trade-offs between improved quality and price. Where regulatory inflation really hurts is not in the standards promulgated. It is in the costly and unproductive prolongation of approval time for the administrative review designed to achieve these standards."

A construction association representing companies that account for nearly 40 percent of the dollar volume of industrial construction said in a preconference paper that "overly stringent and frequently capricious or malicious application of environmental protection regulations" along with the application of "costly and unrealistic safety regulations" under OSHA were factors in the inflationary situation.

Delegates from environmental groups declared that the environmental legislation now on the books was sound and urged that it be continued, but they conceded that contractors have "a legitimate complaint" as to the delays that result in being certified on the standards. One construction delegate said he was not asking for a relaxation of controls but sought a way of meeting the standards "without the elaborate approval procedures which add to the cost because of the delay." He suggested a system of self-enforcement and spot checks such as that utilized by the IRS.

Davis-Bacon Act. There was sharp disagreement on the impact on the economy of the Davis-Bacon Act. A large contractors organization, in a preconference paper, declared that the Act "is a serious contributing factor to inflation." "The Act," said the group, "limits true competition in the construction industry," and called for its repeal.

Another construction delegate in discussion urged immediate suspension and ultimate repeal. Citing a GAO study of Davis-Bacon, he declared that the Federal Government had paid $9 billion in excess costs on 29 major construction projects over the past decade because of maladministration of the Act.

A labor delegate called the analysis "totally inaccurate." He said that "the Davis-Bacon Act says that the contractor will pay the wage prevailing in the area, and if it is a union wage that prevails here, that will be the wage paid. If there's a lower wage rate prevailing in the area, that will be paid." Another labor delegate said, "It was our hope that this meeting would prove to be constructive and not be used as a platform to amputate some of labor's hard-won and long-standing rights." A third labor delegate argued that cutting every union construction worker tomorrow by 10 percent would have less impact on inflation in the construction industry than if interest rates were to drop by 1-3/8 percent.

Construction Industry Stabilization Committee. Several major contractor groups strongly recommended the establishment of a committee to deal exclusively with collective bargaining agreements in the construction industry somewhat along the lines of the discontinued Construction Industry Stabilization Committee (CISC). Another contractors group, in calling for revival of the CISC, said complimentary "reimposition of price controls on suppliers would be intolerable." The CISC, said one delegate, could promote better management and labor relations in the industry. A labor delegate said the original CISC worked well in holding wages down in the construction industry but only because of the cooperation of its labor members. He suggested that if progress were to be made in restructuring collective bargaining through such a group, changes in present law would have to be considered to permit international unions to intervene in local collective bargaining for the purpose of providing guidance.

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groups in non-residential construction cited the need for a Federal officer or agency on construction which could gather data in one place that could assist in developing more reliable projections of long-run construction manpower requirements at local or regional levels. The industry is plagued by a chronic imbalance between labor supply and demand. Construction employers, however, would place such an office or agency in the Commerce Department, whereas labor would prefer it to be an independent agency.

* * *

II

Agenda

AGENDA

<u>September 11, 1974</u>

6:00 p.m.	Reception and Dinner
<u>September 12, 1974</u>	Conference
8:00 - 8:30 a.m.	Briefings by the Council of Economic Advisers and the Office of Management and Budget on the state of the economy, the problem of inflation and Federal budgetary issues.
8:30 - 10:15 a.m.	General discussion and questions on CEA and OMB presentations and general discussion on the overall state of the economy and the problem of inflation. Some issues to be covered:

A. How much of a problem is inflation

1. to business?
2. to labor?
3. to the poor?
4. to individuals on fixed incomes?
5. to government in general?
6. other

B. Causes of inflation

1. government spending?
2. excessive credit availability?
3. costs and scarcity of critical materials, expecially food and oil?
4. excessive profits?
5. excessive wage settlements?
6. international forces?
7. other

C. Possible solutions

1. Federal budget cuts? where? any increases?
2. balanced Federal budget?
3. changes in Federal taxes? further tax incentives or deterrents?
4. encourage productivity?
5. changes in governmental regulations (Federal, State, Local) to increase productivity, e.g., changes in environmental protection regulations?
6. Federal monitoring and publication of the economic impact of price and wage decisions and related government decisions?
7. price and wage controls, guidelines, or private incentives?
8. other

10:30 BREAK

12:45 Inflation and the housing industry. Some issues to be discussed, including suggested short-term and long-term solutions:

A. state of and prospects for the industry
B. availability and cost of credit
C. availability and cost of materials, land and labor
D. effect of government regulations such as land use and environment (Federal, State, Local)
E. special problems of the poor and minorities
F. other

11:00 Housing Producers Panel

11:30 Housing Finance Panel

12:00 Organized Labor Panel

12:30 Special Housing Needs Panel

12:45 General Discussion

1:45 Lunch

45 - 3:45 Inflation and the Construction Industry other than housing. Some issues to be discussed, including suggested short-term and long-term solutions:

A. state of and prospects for the industry
B. availability and cost of credit
C. availability and cost of materials, land and labor
D. levels of government spending programs (Federal, State, Local)
E. effect of government regulations such as land use and environmental (Federal, State, Local)
F. other

1:45 - 2:30	Construction Producers Panel
2:30 - 3:00	Construction Finance Panel
3:00 - 3:30	Organized Labor Panel
3:30 - 3:45	General Discussion
45 - 4:15	BREAK
15 - 5:30	General Discussion/Summary

III

Introduction

INTRODUCTION
THE HONORABLE JAMES T. LYNN
SECRETARY
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

. LYNN:

Good morning. On behalf of President Ford and the Congress of the United States, I welcome you to this conference. As you know, this is a joint effort of the legislative and executive branches of our government.

As the President said in his opening remarks before the Economic Conference on Inflation a week ago today, the Conference on Inflation unites Republicans, Independents and Democrats in an election year against a deadly enemy that doesn't recognize one political party from the other. The President cannot lick inflation; the Congress cannot lick inflation; business, labor and other segments of America cannot lick inflation. Separately, we can only make it worse, but together we can beat it to its knees.

Our purpose at this meeting is to find ways to bring inflation to its knees and still do it in such a way that industries that have been impacted hard do not continue to bear the disproportionate brunt in future years of efforts at controlling inflation.

I have with me today, as you know, to help conduct this meeting a distinguished panel from the Congress of the United States. I have Senator Talmadge from the State of Georgia; Mr. William Brock

from Tennessee; Joe Biden from Delaware, and Senator Ed Brooke will be joining us shortly. On my left I have William Barrett from Pennsylvania; we have Mr. Barber Conable from the State of New York, and we have Thomas Ashley from the State of Ohio. Mr. Widnall ought to be joining us shortly as well.

I do not want to take time with opening statements on my part except for a couple of mechanical matters, if I might. First of all, we intend to forward to the full conference a full transcript of these proceedings. To help us in this regard and to help the gentlemen and ladies of the media here with us today, I urge you--and I know how hard it is to remember it--but I urge that as you are called upon to tell us your views, either in the general discussion periods or as a part of the panel, please give us your full name and the organization, if any, that you are representing by your presence here today.

As I said, the transcript will be forwarded to the full conference. The pre-summit papers that have already been filed will also be distributed to the full conference unless you advise us that you have a revision and submit a revision. Even if you haven't submitted a paper before this conference today, you are entitled at the close of the conference to get papers to us. I would suggest that the close of business on

us full time to prepare those papers to go forward.

One word from me. We are here to listen. The purpose of these meetings is not for we in government to tell you what we think about this or that option, this or that approach, or this or that view. This meeting is being held at the request of the President and the Congress to get your views as to where we are and where we should be headed, and I think that should be the spirit of this conference. We should try to find concensus wherever we can. Where there isn't concensus, we should try to define our issues as well as we possibly can and also to identify the solutions that appear to be the most meaningful.

With that I will turn to my colleagues here and see if they have any other introductory remarks.

Senators? Senator Talmadge?

TALMADGE:

Mr. Secretary, I would like to welcome you and all of our colleagues and the other ladies and gentlemen that are participating in this conference in the city of Atlanta and the state of Georgia. We are delighted to have you here.

I have little to add to what you have said. We are here to listen and to learn. We hope this conference will be meaningful in trying to solve some of the tragic problems that face our country and the serious state of recession, particularly in the housing industry--the housing industry has borne the brunt of it--and we hope that out of this conference will come some solutions.

MR. BARRETT:

Very briefly, Mr. Secretary and distinguished guests, ladies and gentlemen, of course, I want to tell you I am very pleased, first, to accept the President's invitation to be a participant in this creative economic summit session on housing and construction. I am sure that we all agree that the economic crisis that we are living with today is perhaps the greatest economic crisis since the Great Depression of the 1930's. Our economic problems today, I believe, are greater than the ones that faced us at the end of World War II. Most economists and most Americans never thought that they would be living in a time of double-digit inflation, that they would be facing the conditions, particularly in our mortgage market today and the economic conditions that we are now faced with in our

housing problems.

Mr. Chairman -- Mr. Secretary, I just want to point out briefly that the housing construction industry is always the first sector of our economy to suffer during economic downturns since both the housing and construction industries rely almost exclusively on long-term borrowing; they are particularly hard hit because of the record of high interest rates and disintermediation, caused both by the federal government and the basic structure of our money and credit markets.

The problems that we should be talking about here today cannot be solved by only putting additional funds into the housing market but by changes in our tax policy, changes in the structure of our mortgage lending institutions and changes in the federal government's home money market activities.

I am certain we will hear many suggestions today which should be carefully considered by the President, but I do not believe that we will arrive at a neat and tidy proposal to solve all of our problems in the housing and construction industry.

So, Mr. Secretary, I am here today with an open mind and a sense of cooperation, so that we might avert further damages that inflation is causing not only to the housing and construction industry but to

Thank you, Mr. Chairman. And I would like to close by saying that this is a very inspirational way to handle the conditions of the country today because in a sense we are bringing the government to the people and not asking the people to come to the government.

MAYOR JACKSON:

Sen. Talmadge and Mr. Secretary, and distinguished members of Congress, and fellow Americans I'm delighted to welcome you to Atlanta, the city which is clearly by observation and objectively the greatest city in the country.

(Laughter)

We have no modesty at all about that.

I'm delighted to welcome to Atlanta a very important conference.

All of you know, of course, that I got into politics by running for the U.S. Senate in 1968 against the distinguished Senator from Georgia, the Honorable Herman Talmadge. He beat the living daylights out of me.

(Laughter)

(Laughter)

For good or bad.

(Chuckles)

On behalf of the people of Atlanta, I welcome you to the city. As you talk of housing, we're interested here as in any city in the country. We believe that we're doing some things that will be of interest to you. We believe that names like Bedford Pines, Inman Park, Grant Park and West End will become names you'll get to know as landmarks of rehabilitation of urban areas, especially in housing -- the reclamation of these areas.

We believe you've come at a very important time, because all of us are suffering under the inflation that affects the nation now.

We, in our city, in 1971, had an unemployment factor of 1.9; in January of 1973 we had an unemployment factor of 3.9; but now we have an unemploy-

alarming figure. We believe that a five-point program that is going to be presented by the U.S. Conference of Mayors in the National League of Cities deserves consideration.

You have come at a time when the cost of food, as far as staples are concerned, is up as high as 200 or 300 percent.

So, I'm reminded of the quatrain by the famous American poet, Langston Hughes;

"I swear, My Lord,
I just can't see
why democracy means
everybody but me."

We paraphrase that, even for the working people of this country, let alone the batches of poor people, we might be able to say:

I swear, My Lord,
I just can't see
why the economy means
everybody but me.

And so I welcome you at a time when our job is to communicate our ideas to the President, communicate our ideas to the Congress and to seek

of the game today, and I know it's a difficult

I know that because I have a friend who to the doctor and said he had a rather serious elicate problem in his marital relationship. I go into details -- in the South, you know, we of these things in delicate terms. Anyway, octor advised him to take some vitamin pills lso to walk ten miles a day. And he said, "Call ven days from now and let's see how it's doing.

So the man called him back seven days and the doctor said, "How's it going?"

And the man said, "I'm feeling much better but I'm awfully tired."

"How are you and your wife getting along? octor asked.

He replied, "I don't know -- I'm seventy from home!"

(Laughter)

So, I'm confident we'll be able to do a better job of communicating today.

And I welcome you to the greatest city in ountry -- the world's next great city.

Thank you.

IV

Briefing by the Office of Management and Budget

we asked you last night to fill out a questionnaire. They've been tabulating the results of that questionnaire over the evening. At the time of the coffee break this morning, the results of that questionnaire in tabular form will be available and will be handed out both generally to the press and to the members of the Conference.

We'll begin the Conference today with some short presentations by the Office of Management and Budget and by the Council of Economic Advisors. We have with us to present the budget scene, Mr. Paul O'Neill from the Office of Management and Budget. Paul?

ILL:

Thank you, Mr. Secretary.

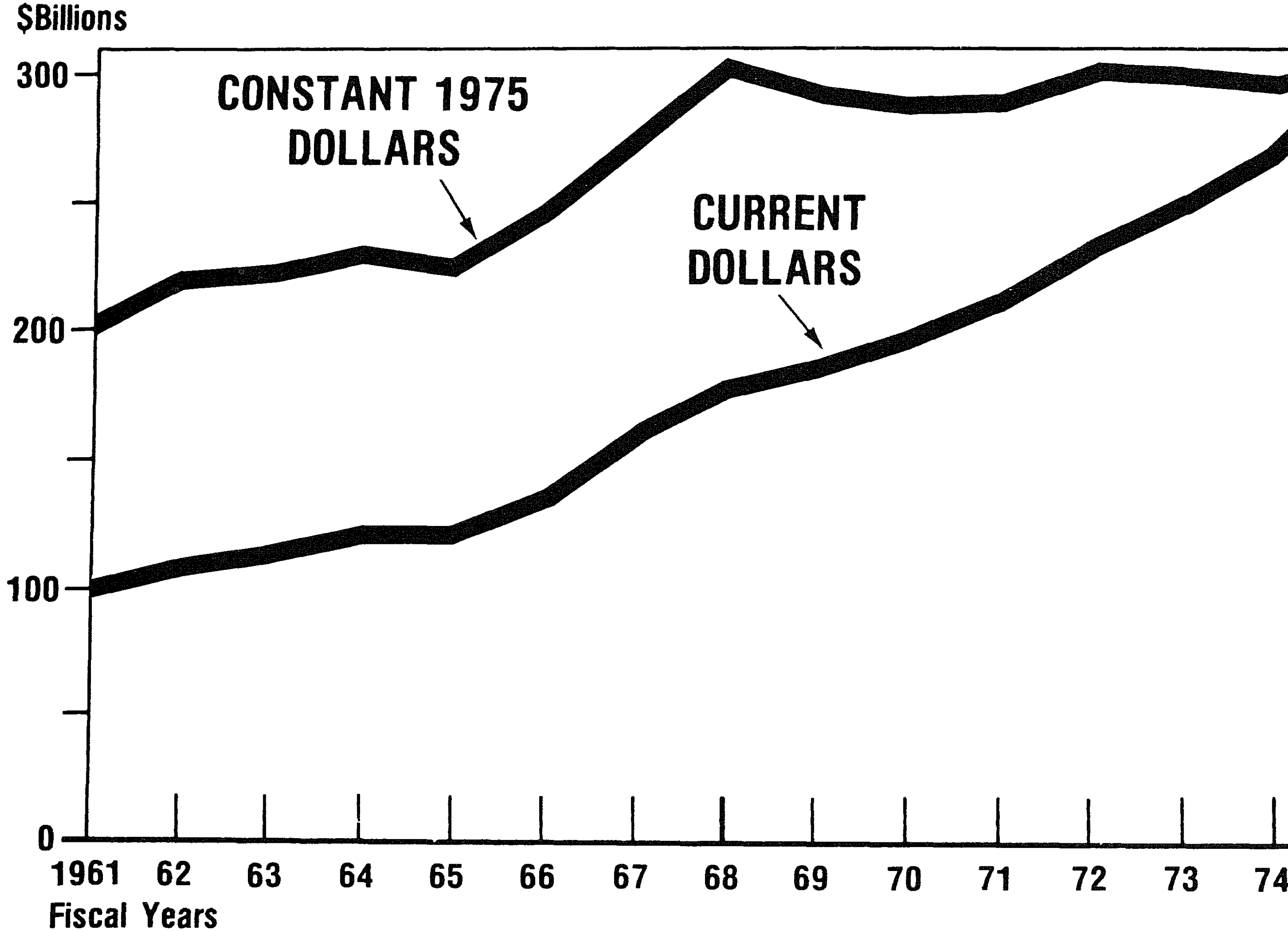
I'd like to take you through very quickly some rts that I brought with me. I do not have a pared statement. The purpose of the charts is give you some perspectives on what's happening to Federal budget over the last fifteen years or so also to show you something about the composition of the eral budget as we face it today. We work on challenge the President has given us to get eral spending in fiscal 1975 below $300 billion.

May we have the first chart, please?

This first chart shows the Federal budget out- s, 1961 to 1975, and the trend line of the curve. is in current dollar terms, and it shows that ce 1961, Federal spending has grown from about $100 lion to the current estimate for 1975 of $305.4 billion. we may have the overlay?

I think you'll see a perspective on this overlay t's somewhat different as we recount Federal spending this same period into constant dollars. In the iod, 1961 to 1968, we did have a very substantial rease in Federal spending by about $100 billion in constant

FEDERAL BUDGET OUTLAYS 1961-75



rms. And since that time we've had a fairly
vel rate of federal spending in constant dollar
rms.

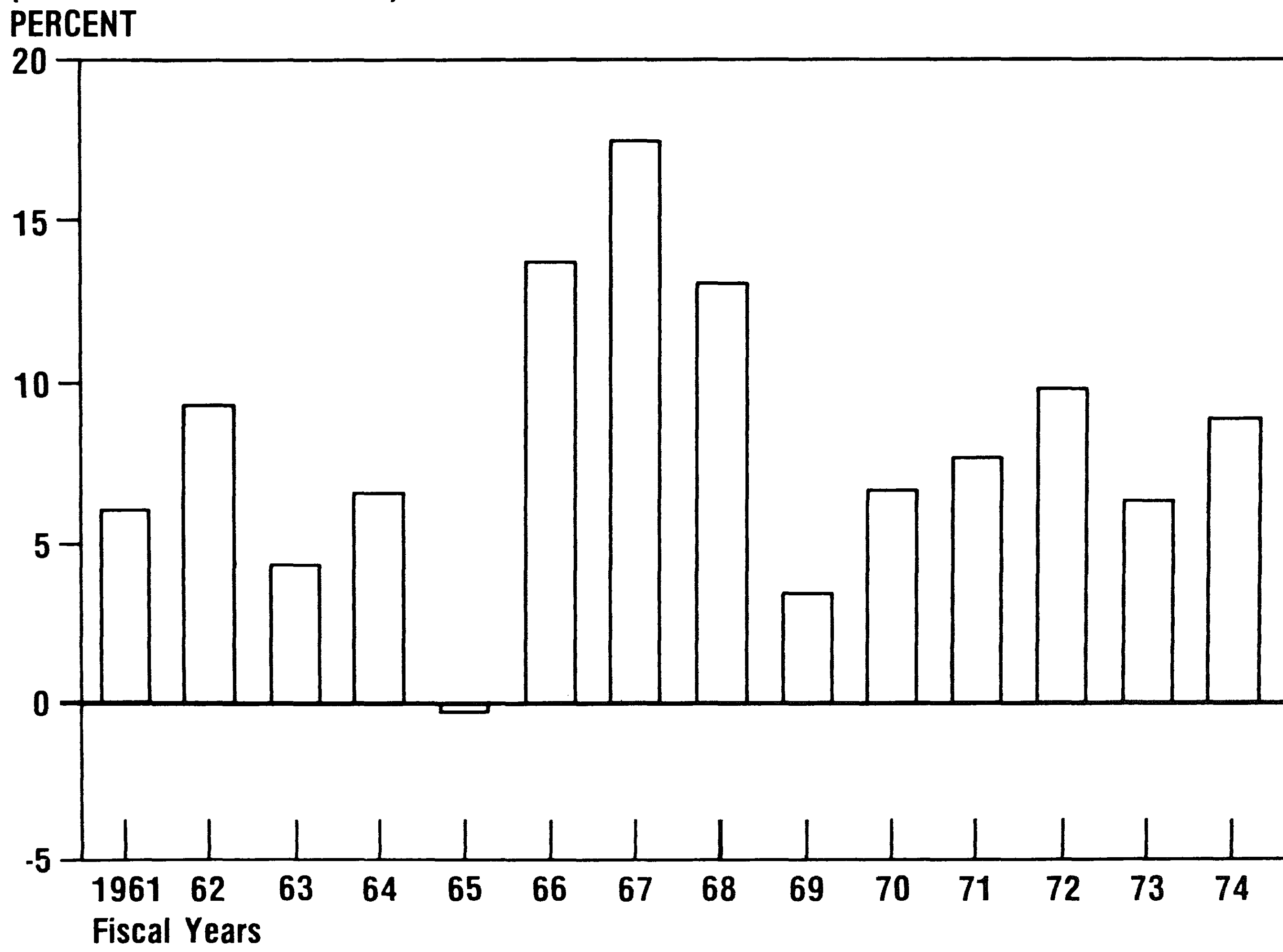
May we have the second chart, please?

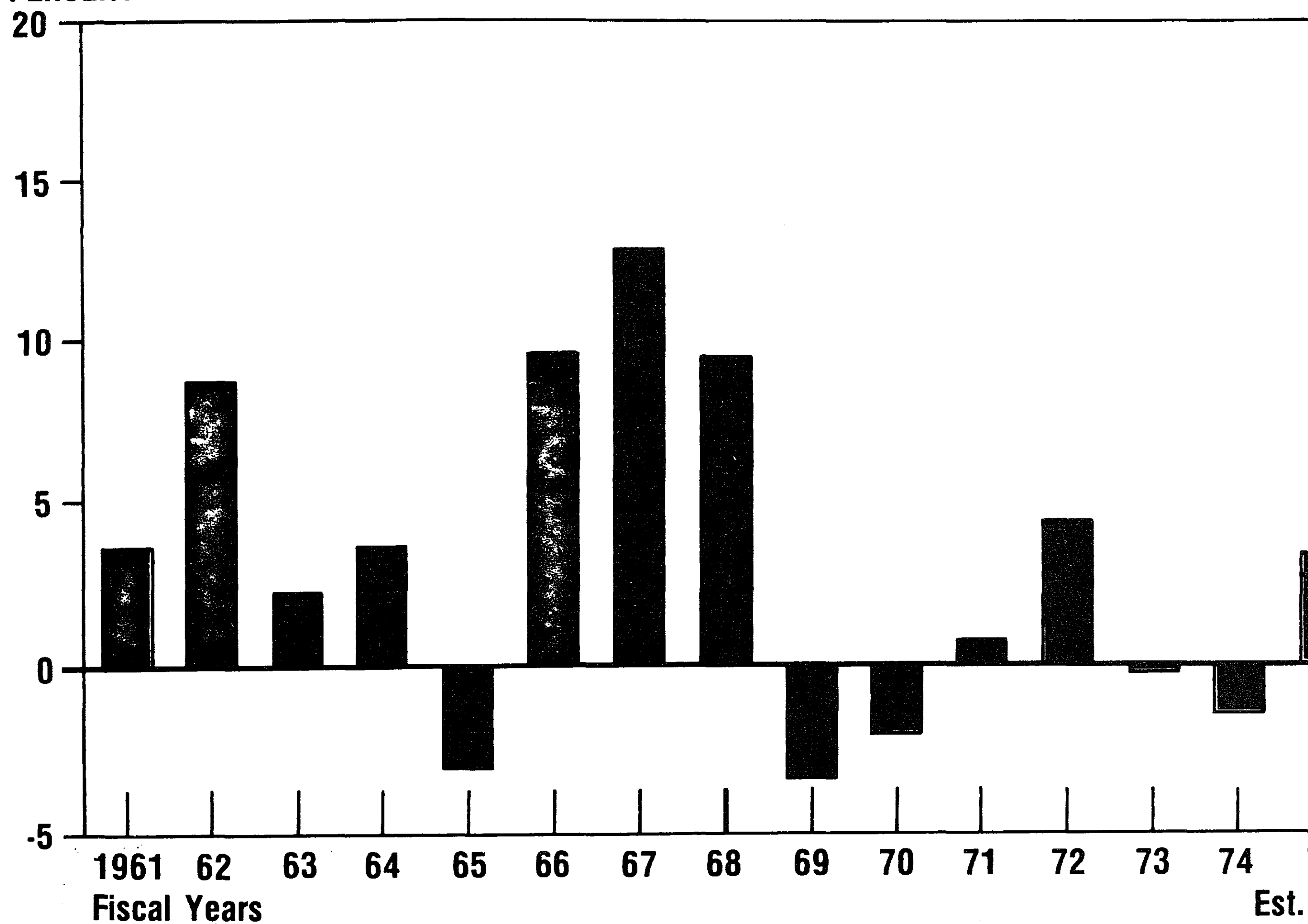
This chart shows you the percent change in
deral outlays in the same years. In the past
fteen years, federal outlays have increased at an
erage rate of 8.3 percent. Outlays increased
every year except 1965, when they decreased very
ightly as you can see. The most rapid growth
curred between 1966 and 1968 due to the build-up
the war in Vietnam and the simultaneous increase
social programs. The chart shows for 1975 assumed
tlays of $305.4, as I said. If they remain at
05.4, the increase over '74 would be 13.8 percent,
ich you can see is well above average for this
storical period. If we can reduce the outlay to
00 billion or less as the President has indicated he
nts us to do, we would still have a year to
ar increase of 11.8 in fiscal year 1974.

Next chart, please.

This chart shows you the percent change in
eral outlays for this same period of time in
stant 1975 dollars. In real terms, federal outlays
e grown at an average annual rate of 3.1

PERCENT CHANGE IN FEDERAL OUTLAYS
(CURRENT DOLLARS)

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Fiscal Years
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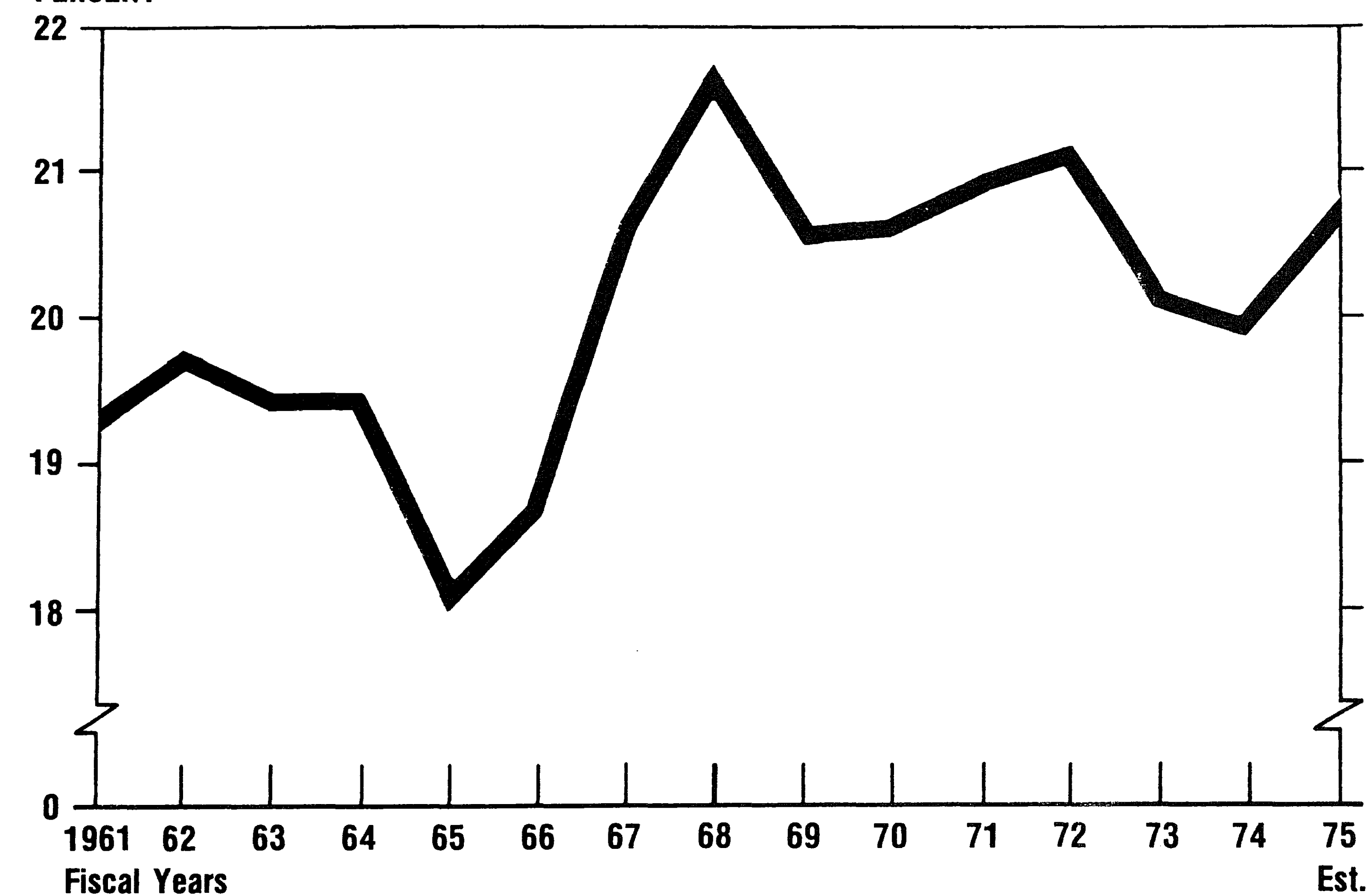
percent over this period of time. Real outlays grew at an annual average of 5.8 percent between 1960 and 1968. In contrast, real outlays in the '68 to '75 period have shown virtually no increase. In fact, about .2 percent.

May we have the next chart?

Now, this chart shows you the federal outlays as a percent of GNP, and I call your attention to the broken scale here. We're just looking at the top part of a condensed scale, 18 to 22 percent. Over the fifteen year period from '61 to '75, outlays have ranged from 18.1 percent of GNP in 1965 to 21.6 percent in 1968, although the year to year change of the outlays as a percent of GNP are somewhat erratic. The average for the first half of the fifteen year period is about one percentage point less than for the last half of the period. Thus, although outlays as a percent of GNP have declined some from the 1968 peak, they are greater than in the period preceeding 1968. The '75 percentage is once again based on an outlay of $305 billion, and if we hold the outlays below $300 billion as we are striving to do in 1975, we reach a percentage of outlays that's lower.

May I have the next chart, please?

Now, this chart shows you in constant dollars



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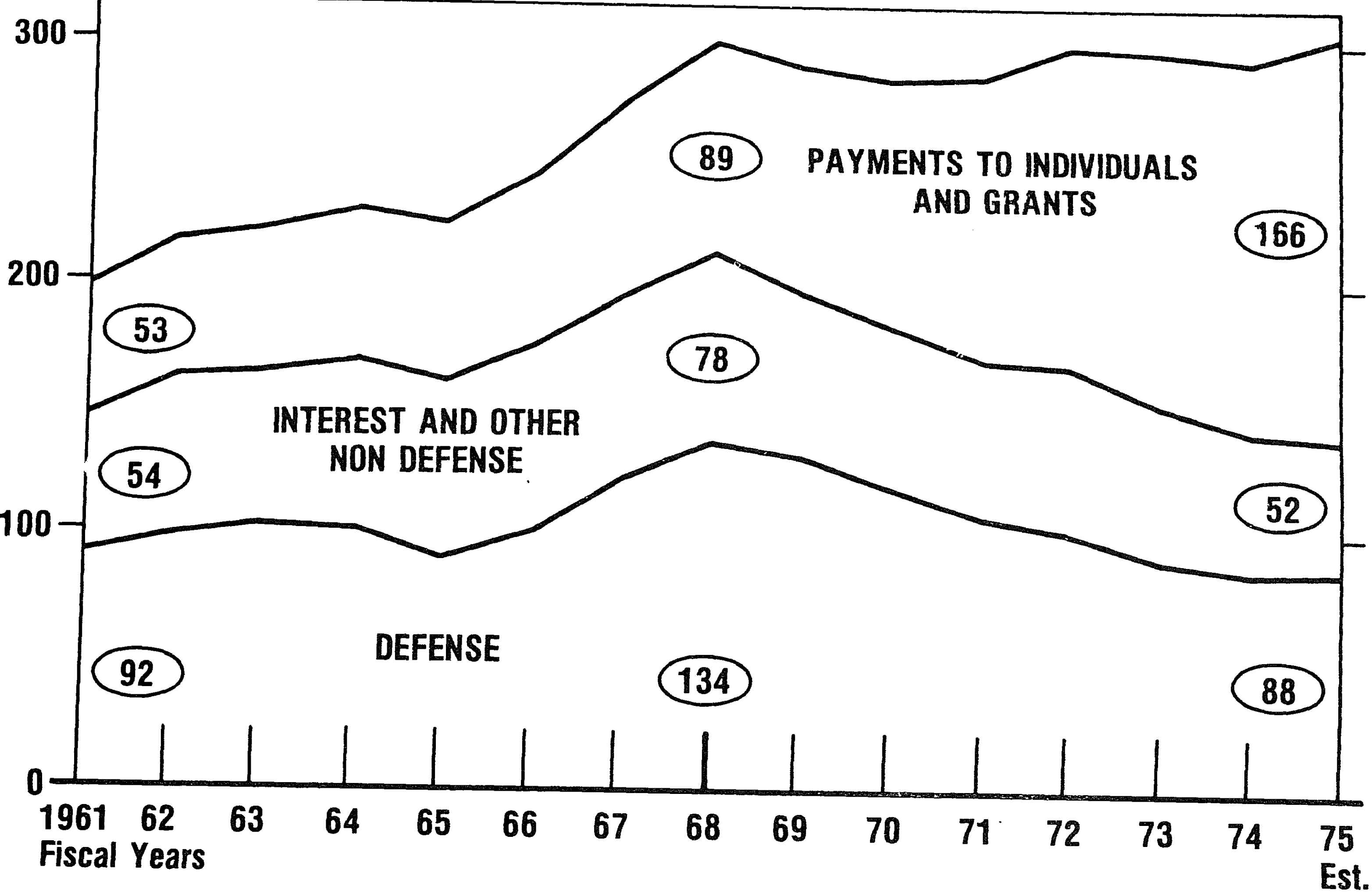
real terms, the 1975 budget level of defense spending is lower than in any period of the decade of the 1960's. In fact, it's lower now than at any time than during the pre-Korean War level, and one thing that's allowed us to do that is the reduction in military manpower over the last six years, reducing people in uniform from 3.5 million to 2.4 million in 1974.

Payment to individuals is now the largest category in the budget, and as you can see, it's still going up. The constant price of payments to individuals in 1975 is estimated to be nearly triple the 1961 level. In 1973, this category of spending passed defense in size, and by 1975, these expenditures are expected to exceed defense by 30 percent. The other component of that block is grants to state and local governments which has risen by 278 percent between 1961 and 1973. Since 1973, I should note that those grants to state and local governments have been relatively level. The real outlays for interest and other non-defense has grown by 44 percent between '61 and '68, and you can see the bulge of the curve as we get to '70. Since 1968, they have declined steadily, and, now, they are below the 1961



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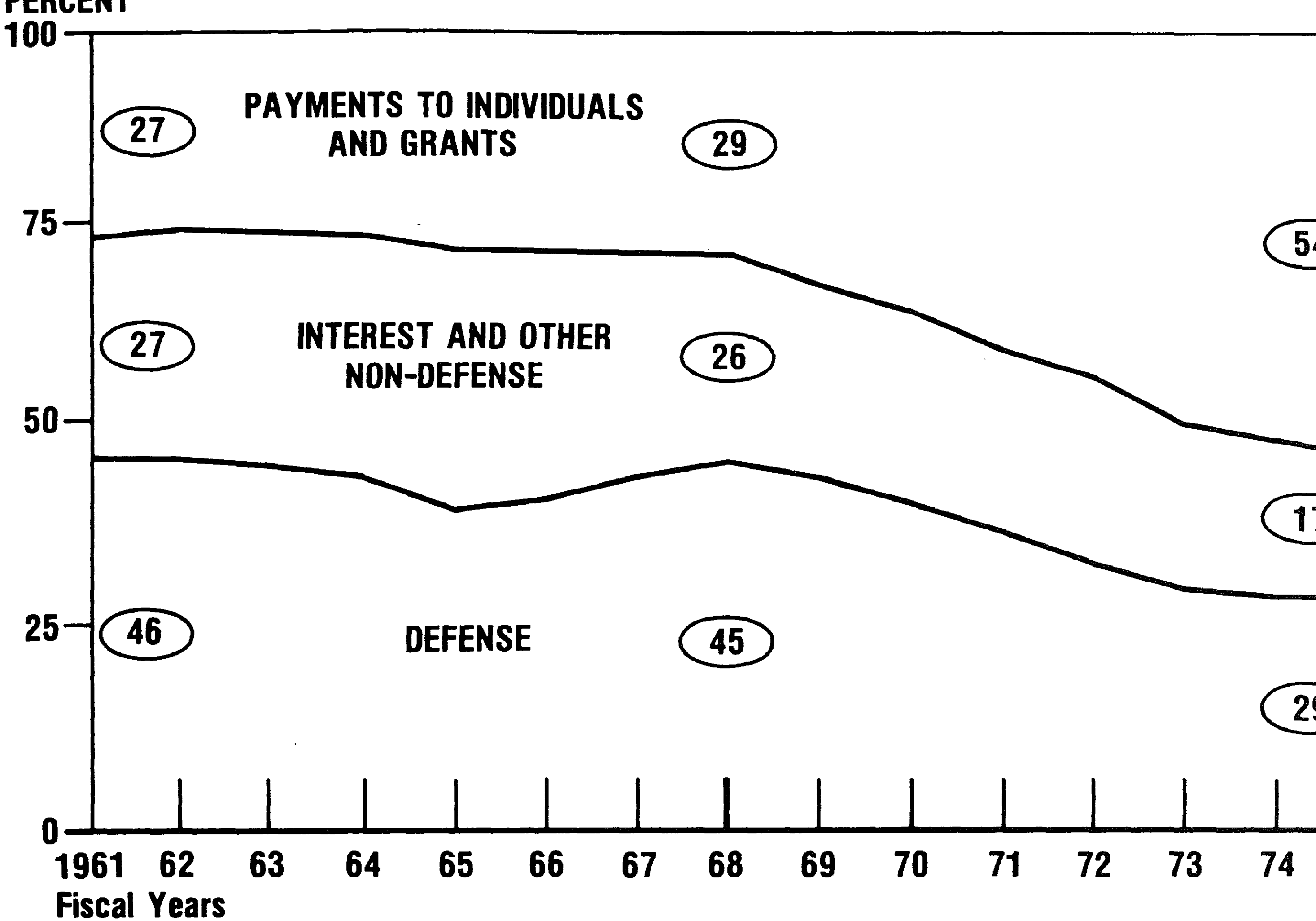
Fiscal Years

space and foreign aid and an increase of the oil receipts that show up as negative outlays in the budget.

Now, this chart shows you the same thing as a percentage distribution of real federal outlays. Real defense spending, as you can see, falls from 46 percent of the budget in 1961 to 29 percent in 1975. Interest and other non-defense spending also falls, going from 27 percent in 1961 to 17 percent in 1975. Payments to individuals and grants doubled as a share of the budget total from 27 percent to 54 percent. Indeed, there has been a very, very great shift in priorities in federal spending in this historical time period, 1961 to 1975.

May we have the next chart?

Now, this shows you the budget surplus or deficit as a percent of receipts. The federal budget has been in surplus in only one of the last fifteen years, as you can see. Over this fifteen year period, the annual federal budget deficit has averaged $9 billion or over five percent of the total budget receipts. In other words, federal spending has exceeded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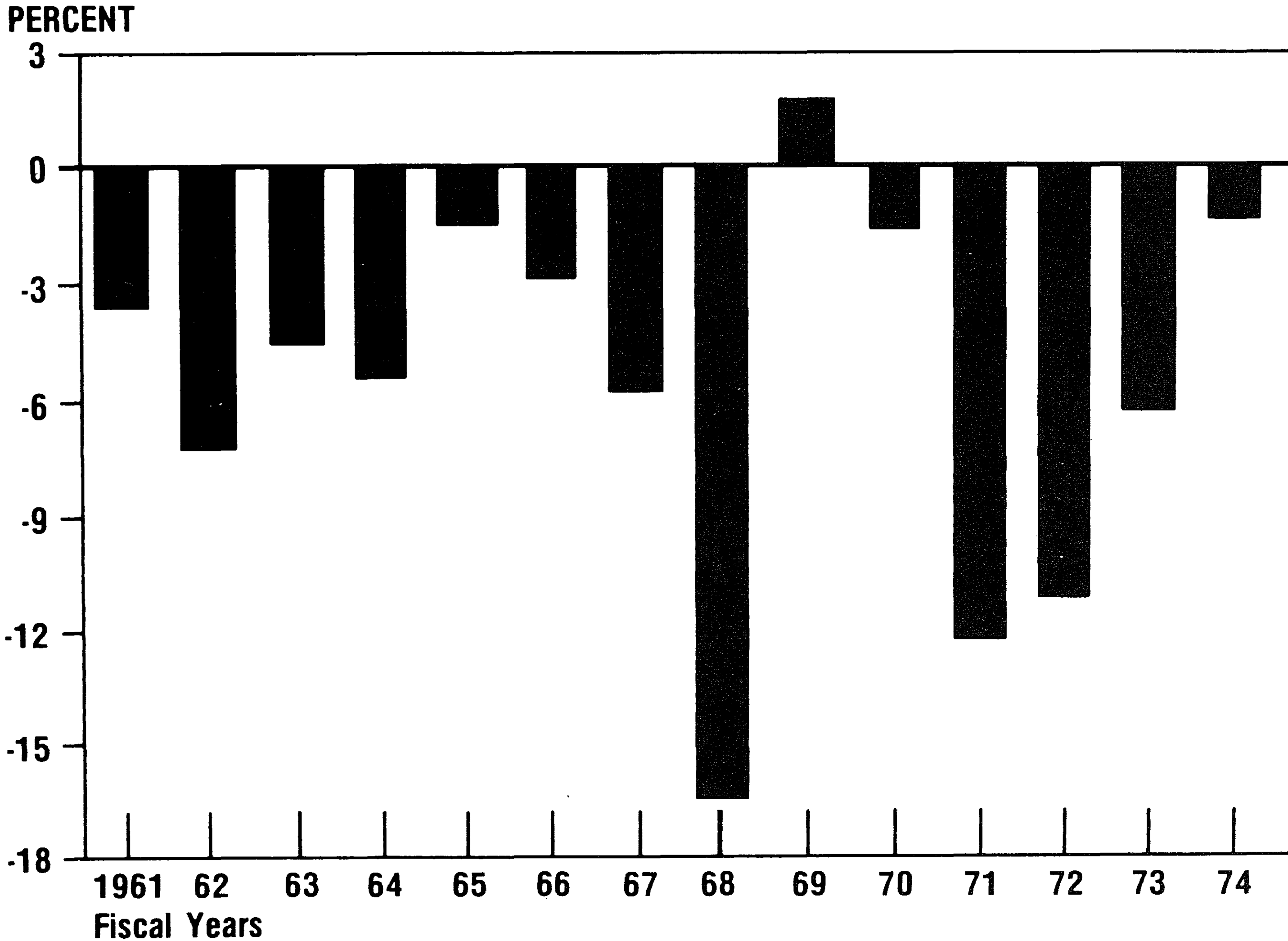
Fiscal Years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Fiscal Years

federal receipts by over five percent during this period. Deficit spending in some of these years of slower economic activity can be defended, but as you look at some of those bars and remember the economic conditions we've had, it makes you wonder about the stimulus we've provided over some of those years.

May we have the next chart, please?

Now, this chart shows you some of the composition of federal outlays as we face them today, as we face the challenge of meeting the President's challenge to the Congress, and hopefully with your good suggestions as to how we can get below $300 billion in federal spending for fiscal year 1975. This chart works in descending order of difficulty of cutting federal spending. The top part of the chart is the most difficult area to do anything about in the near term. The first category of mandatory spending, as you can see, is made up of net interest, that is interest payments that the federal government must make to the public to pay interest on the public debt. We have virtually no control over that amount of federal spending in fiscal year 1975.

The next line speaks for itself, housing subsidies and insurance, et cetera. These are contractual obligations that the federal government

FY 1975 BUDGET — COMPOSITION OF OUTLAYS

(IN BILLIONS OF DOLLARS)

MANDATORY SPENDING	
CONTRACTUAL OBLIGATIONS:	
NET INTEREST	
HOUSING SUBSIDIES AND INSURANCE, FARM SUPPORTS, ETC.	
OTHER PRIOR-YEAR OBLIGATIONS	
DEFENSE	(23.0)
NONDEFENSE	(30.1)
SUBTOTAL CONTRACTUAL OBLIGATIONS	
ENTITLEMENT PROGRAMS	
LEGISLATIVE AND JUDICIARY	
TOTAL, MANDATORY SPENDING	
DISCRETIONARY SPENDING	
DEFENSE:	
PERSONNEL	(37.0)
ALL OTHER	(20.1)
NONDEFENSE:	
PERSONNEL	(20.0)
ALL OTHER	(15.1)
TOTAL, DISCRETIONARY SPENDING	
OFFSETS (OFFSHORE OILAND RECEIPTS AND CONTRIBUTIONS TO EMPLOYEE RETIREMENT FUND)	
TOTAL	

has committed itself to, and the only way we could change that number would be for the federal government to default on contractual obligations. Other prior year obligations are a similar kind, although they are not in the same class, for example, as the housing obligations that you're perhaps most familiar with where we've made prior year obligations. The other obligations are cases where the government is taking constructive delivery on orders that it made in prior years, and once again, in order to reduce those numbers, we would either have to negotiate a change in contracts with the contractor or we would have to default on the federal obligations.

Now, there's another break there that shows you how these contractual obligations are distributed to defense activities and non-defense activities, and, then, total. It shows you that about $82 billion of the $305 is locked in concrete for fiscal year 1975. When I said we would come down in order of things that are easier to affect, that area is not an easy one to affect, and I'll show you a blow-up of this to show you why.

We show you entitlement programs on this line. What that means is that class of dollar spending that the federal government has obligated to pay

We'll look at that in more detail. In addition to that, there's $1.1 billion that is in the totals for 1975. It is to provide the money for the legislative branch and the judiciary, and together all of those activities give us a $225 billion estimate out of the $305 billion for fiscal year 1975.

Now, let's move down to what we call discretionary spending. --

that is those things that we could more easily effect than those listed above.

The first category is defense which, as you can see, is $57 billion. Of that total, $37 billion is the salaries and the supporting costs for that 2.4 million people that I mentioned earlier that are in uniform.

And, the total of all others is $20 billion.

And on defense, discretionary spending is $35 billion. Once again, personnel is $20 billion and all others is $15.1 billion.

You can see the kind of problems that we're facing together.

it if you want to, but it's offsetting receipts and I think we need not.

The next chart, please.

Now, this is a blow-up of that next to the last line, that I showed you before, of discretionary non-defense outlays that are included in that $305.4-billion number.

I think the chart speaks for itself. and I think that you can see there are very many difficult areas that one has to consider in looking for ways to reduce the fiscal year 1975 budget by tackling discretionary non-defense programs. The health number, for example, is largely the activities of the National Institutes of Health. The expenditure for Manpower Assistance includes, for example, the money the President spoke about yesterday for advanced and accelerated obligations for the creation of public service jobs.

And so on down the line. You can see that each one of those has certain difficulties attached to any thoughts that we might be able to reduce.

DISCRETIONARY NON-DEFENSE OUTLAYS, 197

(Excluding Personnel Costs)

Program	1975 (($ bi
Health (largely research and training)..	
NASA research and development..	
Foreign aid (largely P. L. 480 and Indochina reconstruction)..................	
Atomic energy..	
Child nutrition program..	
Education programs...	
Comprehensive manpower assistance..	
Extended unemployment benefits (proposed legislation)..........................	
Veterans medical care..	
Federal aid highways...	
Housing and Community Development Act..	
Coast Guard operating expenses...	
Corps of Engineers and reclamation construction................................	
Department of Justice..	
Payments and loans to the District of Columbia.................................	
All other..	
Total, discretionary non-defer. .utlays..	1

shows you something about the breakdown of those entitlement programs that make up $142 billion worth of the federal budget in fiscal year 1975. So you can get some feel for the implications of what reductions we might need in these programs, I've added a column here to show you how many beneficiaries are entitled to those various classes of benefits. Of course, Social Security is the largest, representing $65 billion in fiscal year 1975. The other numbers speak for themselves.

It may be useful to note for this audience that general revenue sharing has been classified on this chart as an entitlement program; and, indeed, that's the way we view it. But I call that to your special attention.

With that, I'd like to turn it over to my colleague, Alan Greenspan.

CHAIRMAN:

Thank you.

	Outlays ($ billions)	Beneficiaries 1/ (millions)
Benefit payments for individuals		
Direct Federal:		
Social Security (OASDI) and railroad retirement	65.1	32.1
Civil Service and military retirement	13.1	2.3
Medicare	14.2	12.2
Veterans benefits	10.1	7.3
Supplemental security income	4.8	5.0
Food Stamps	4.0	15.8
Disabled coal miners	.9	.5
Grants to States:		
Public assistance (AFDC)	4.6	11.5
Rehabilitation and social services	3.1	10.0
Medicaid	6.3	28.6
Unemployment insurance	8.3	1.9 2/
Subtotal, payments for individuals	134.4	
Other		
General Revenue Sharing	6.2	
Postal Service	1.6	
Legislative and judiciary	1.1	
Subtotal, other	8.8	
Total	143.2	

1/ Substantial overlap between programs.

2/ Average number of beneficiaries per week.

V

Briefing by the Council of Economic Advisors

HE CHAIRMAN:

We have planned for a presentation by Dr. Greenspan, who, as you know, is the new Chairman of the Council of Economic Advisors.

R. GREENSPAN:

It's hard to find a particular area of the economy which is more disturbed by inflation than construction--specifically, housing. It's fairly easy to spout a number of remedies which one can do to soften the impact of inflation; nonetheless, I think inflation, especially the double-digit variety which we've seen, is clearly something which this country can not live with indefinitely. One of the basic reasons is largely our old financial structure, and specifically the financial structure which underlies housing and in certain limited extents, nonresidential construction as well. It's not very difficult to see why this is. It's largely because we have a thrift-institution structure which was built up and is viable only with low, single-digit inflation. It requires long-term interest rates being considerable above short-term rates on average, and cannot be a viable institutional structure if inflation is rampant.

Short-term rates are moving rapidly for reasons with which we are all familiar. We may think of all sorts of palliatives; but when you're

dealing with an industry which is in excess of 300-billion dollars, you just can't turn that around easily and you cannot move things about at will. You can think through huge numbers of all sorts of solutions and through a long series of various remedies; but you come down to one very fundamental bottom line. All of these particular palliatives which we consider really are beside the point. The only way in which we can return our housing and our whole construction industry back to its extraordinary strength and tremendous productivity for recent years is to bring the inflation rate down. Let's not kid outselves. There are really no other major ways of solving this problem than bringing down the rate of inflation.

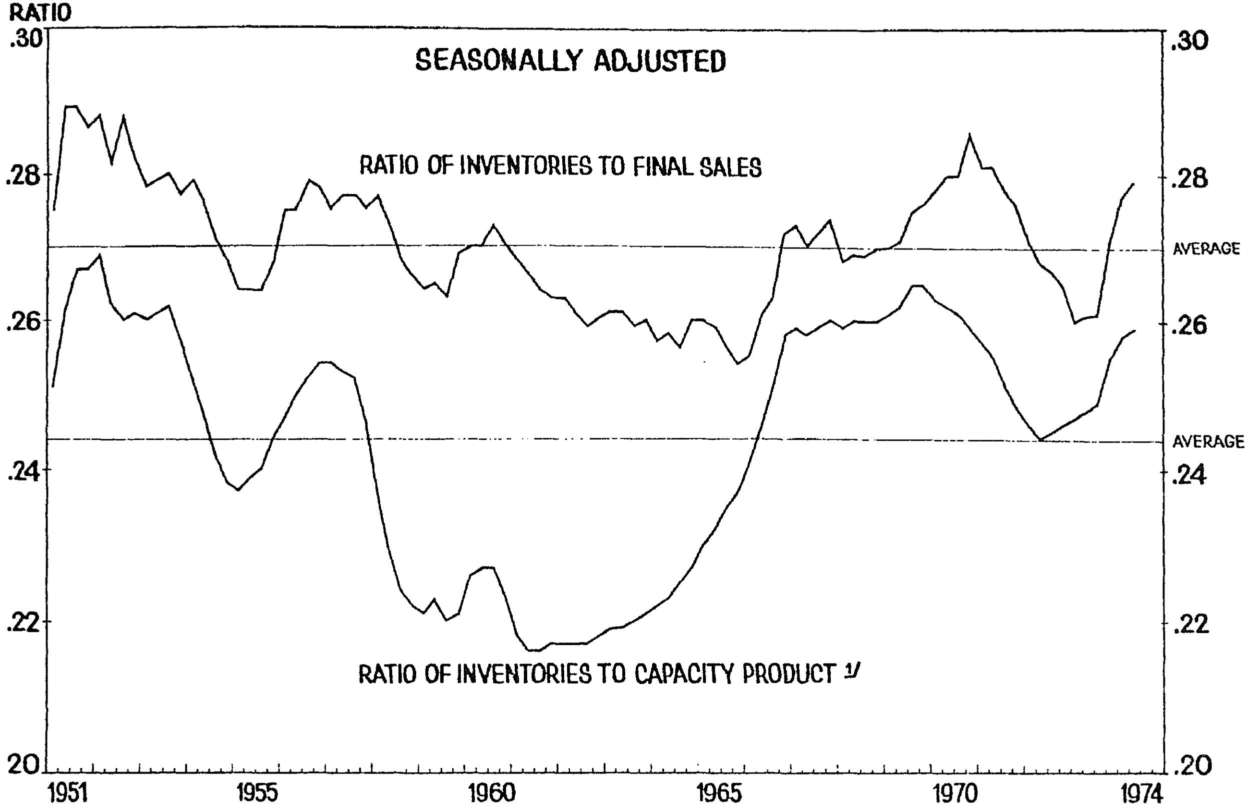
Now, there are numbers of other reasons as you go from industry to industry, sector by sector; and our country just can't live with this sort of thing. I think one of the reasons we're all here, one of the reasons why the President has indicated that inflation is Public Enemy Number One, is that in fact it is; and hopefully, through this type of meeting we're going to be able to find a way through this problem, which is exceptionally difficult, clearly. I'm not about to tell you that the economy is in reasonably good shape because it is not. If it were in good shape, we wouldn't be here.

I see evidence at the moment that what we're confronted with is a situation in which the

economy is sagging. We have fairly excessive inventory accumulation. It's at a point now where I think we're about to get some reduction in inventory investment. There are a number of ways of looking at it. In fact, when we look at it, we're likely to pull out this particular insert, which I hope all of you have. There were some background materials coming out of the Council of Economic Advisers; and if you'll turn to the set of charts in the back, I think I'll be able to describe fairly quickly what our general outlook is and save a little time. In the back -- I think it starts in the back -- the first chart of the series of charts shows the ratio of inventories to capacity for sales; and as you can see, these measures are at a pretty high level. We are also seeing other forms of evidence of pending or existing weakness in the inventory picture; lead times on deliveries of new materials from producers is beginning to slip. We are beginning to see some sluggishness in the order picture; and as a consequence, I think we are likely to see the beginnings of a typical easing-off or inventory-type decline that we've seen so many times in the past.

This could conceivably turn out to be a considerable inventory reduction, dragging the economy down, were it not for the fact that fortunately we still have some pretty exceptional capital business. If we turn to

1958 DOLLARS TO SELECTED MEASURES OF NONFARM BUSINESS SECTOR PRODUCT IN 1958 DOLLARS



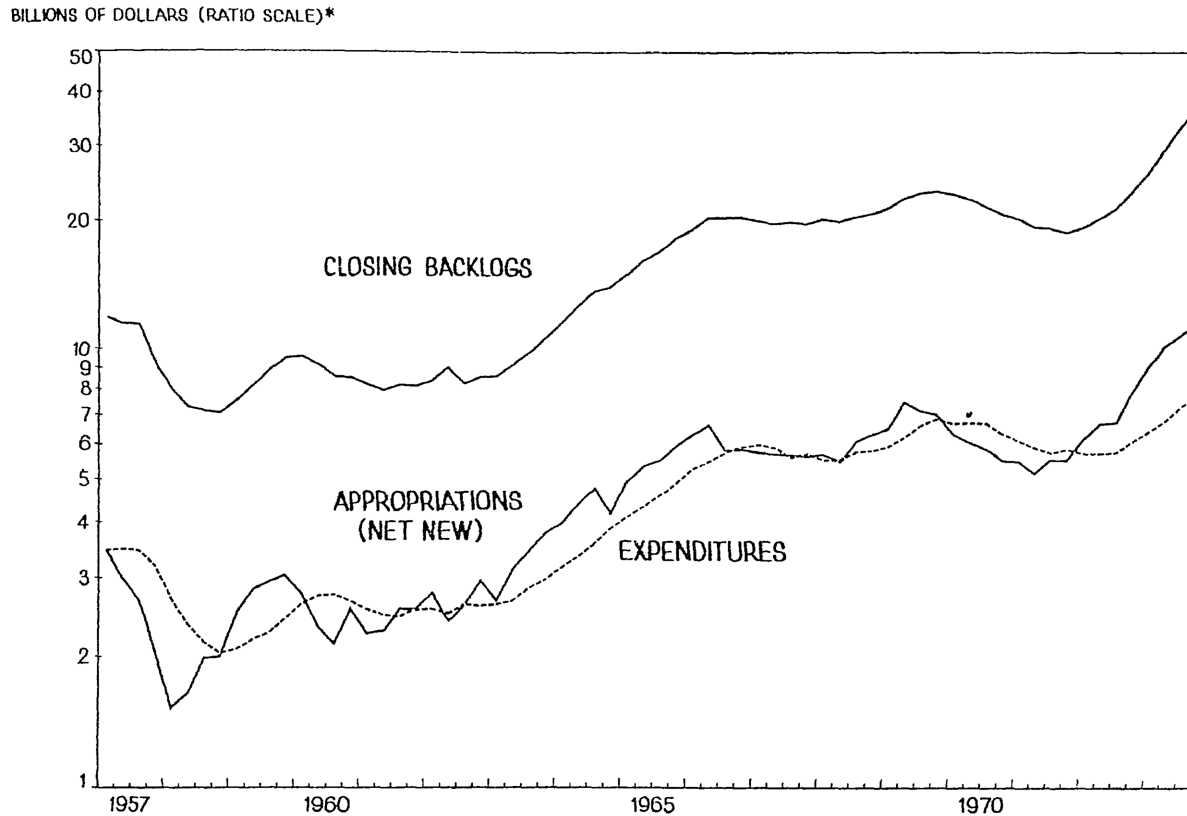
1/ BASED ON 8 QUARTER SMOOTHED MOVING AVERAGE CAPACITY PRODUCT SERIES. THE UNDERLYING CAPACITY SERIES IS NONFARM BUSINESS OUTPUT IN 1958 DOLLARS DIVIDED BY WHARTON MM&U UTILIZATION RATE.

SOURCES: DEPARTMENT OF COMMERCE, WHARTON EFA, AND COUNCIL OF ECONOMIC ADVISERS.

represents some easy ways of looking at capital business. All of these charts, the next three, show capital appropriations in manufacturing, which we can see in the second quarter are sharply up, even adjusting for the fact that there's inflation in these figures. We still have very much the same picture--a very large unexpended backlog of appropriations; or, as the next chart shows us, very heavy construction in the works. In other words, uncompleted projects, even in the public utility area where we're experiencing some fairly substantial curtailments now, still are exceptionally high and will continually push the level of overall economic activity for awhile.

Now, not only does the capital-goods market, the only basic support that we have at the moment, it also tends to soften the potential rate or the extent of the decline that might occur in inventory investment; and the reason is that a very substantial part of the inventories in our system are supported by the capital goods industry; and as a consequence, so long as they hold up at least relatively well, very sharp reductions in inventory investments at this stage seem unlikely. So that what we have when we put all these numbers together, including what is clearly not a particularly favorable

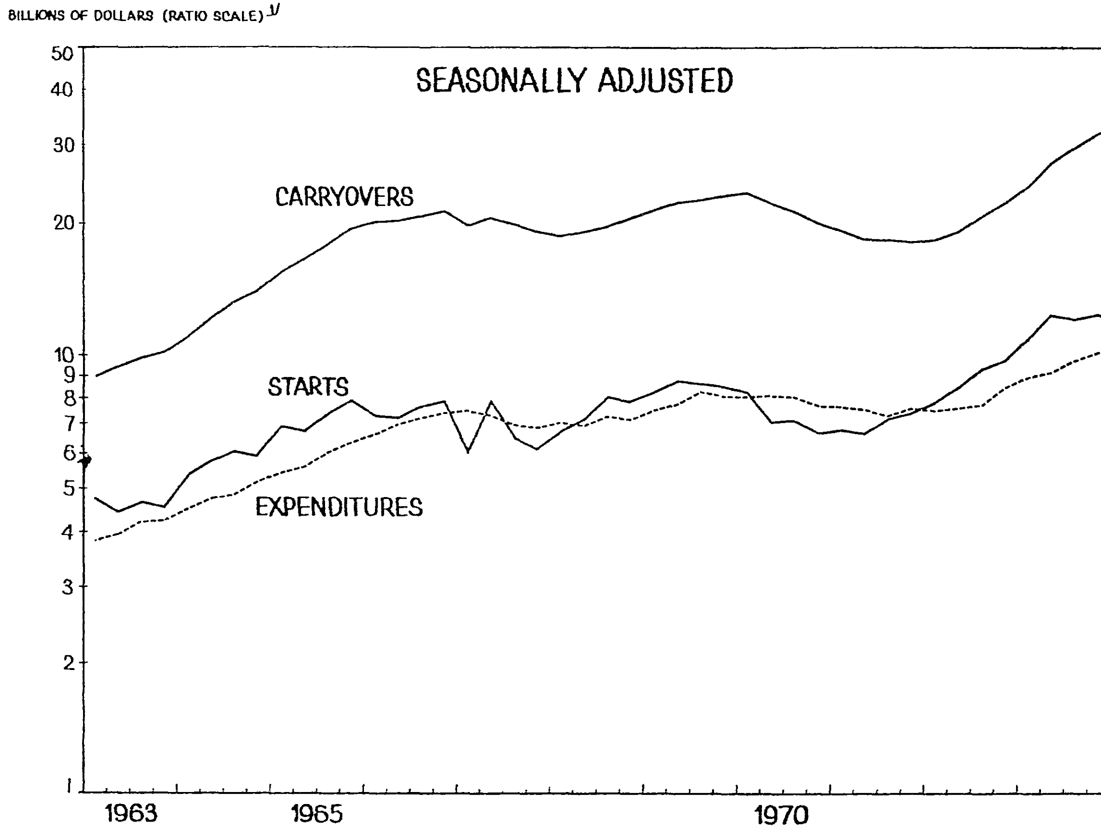
CAPITAL APPROPRIATIONS, EXPENDITURES, AND BACKL



* SEASONALLY ADJUSTED QUARTERLY RATES.

SOURCE: THE CONFERENCE BOARD.

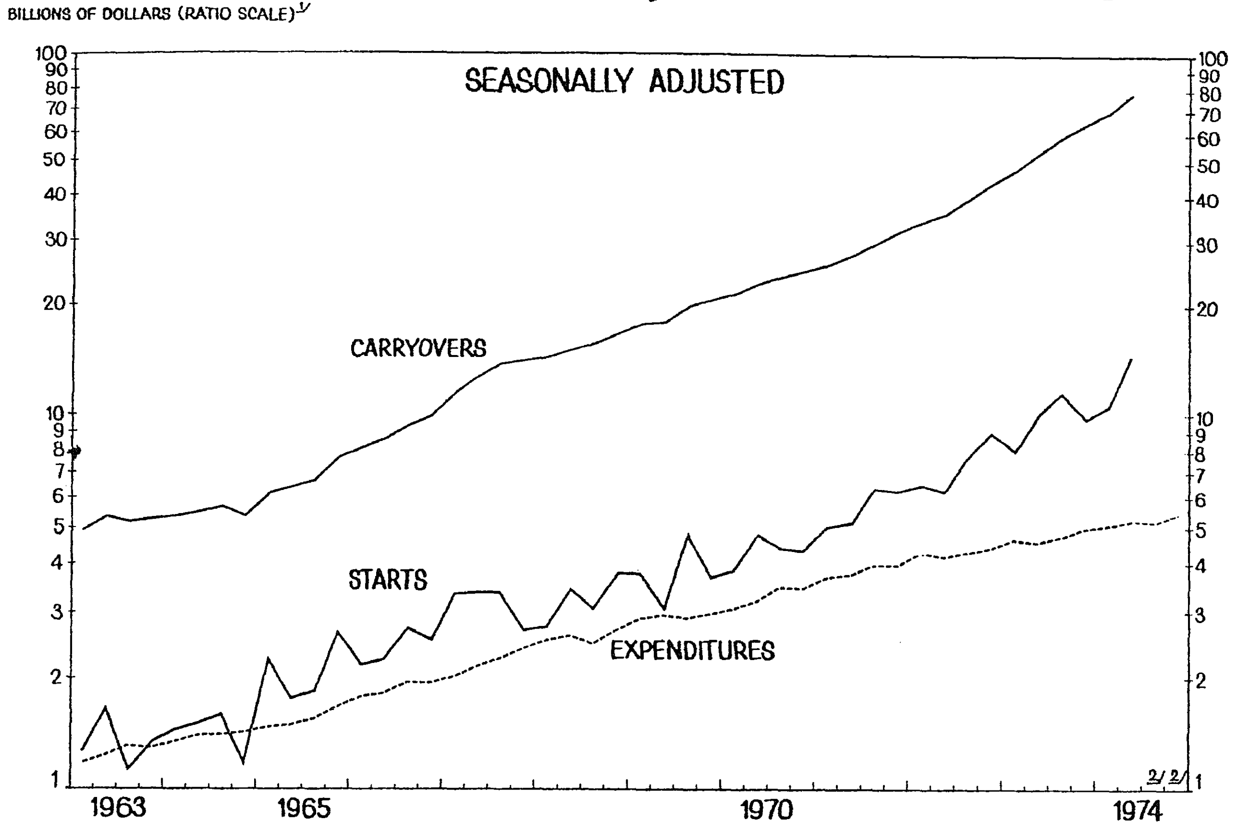
STARTS, EXPENDITURES, AND CARRYOVE



1/ QUARTERLY RATES.
2/ PLANNED EXPENDITURES.

SOURCE: DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS.

PUBLIC UTILITIES PLANT AND EQUIPMENT STARTS, EXPENDITURES, AND CARRYOVERS



1/ QUARTERLY RATES.
2/ PLANNED EXPENDITURES.

SOURCE: DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS.

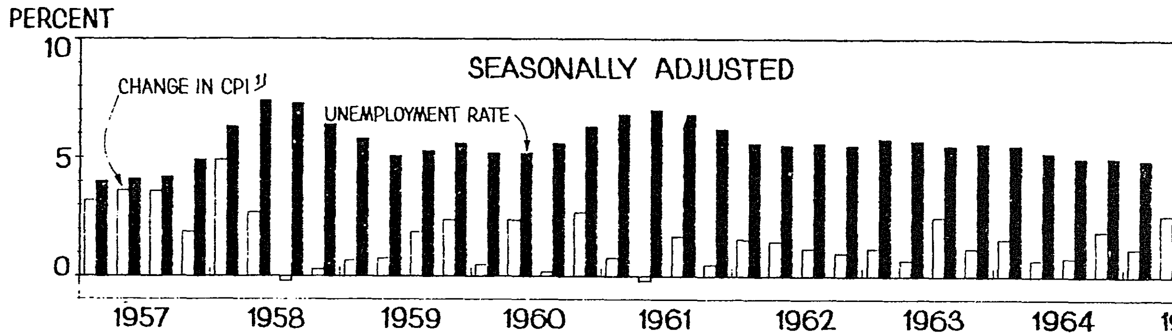
housing picture, what we've got is an exceptionally sluggish, dull economy--one which is not likely to pick up in any meaningful way, at least until the spring of 1975. This suggests that we are in for a worsening of the immediate outlook, because, as you know, we have also a short-term inflation coming; and one needs to look only at what's happened to agricultural prices basically since early June and recognize that the normal time frame of going from increasing farm prices, which have been fairly substantial since the beginning of summer, that these must begin to work their way into the retail level, and I think that we'll be seeing some of that very shortly. We're already seeing it, of course. This means that in the period immediately ahead, until we work our way through this particular up-tick in agricultural prices, the general price level will not be behaving in such a way which we would consider desirable or even encouraging.

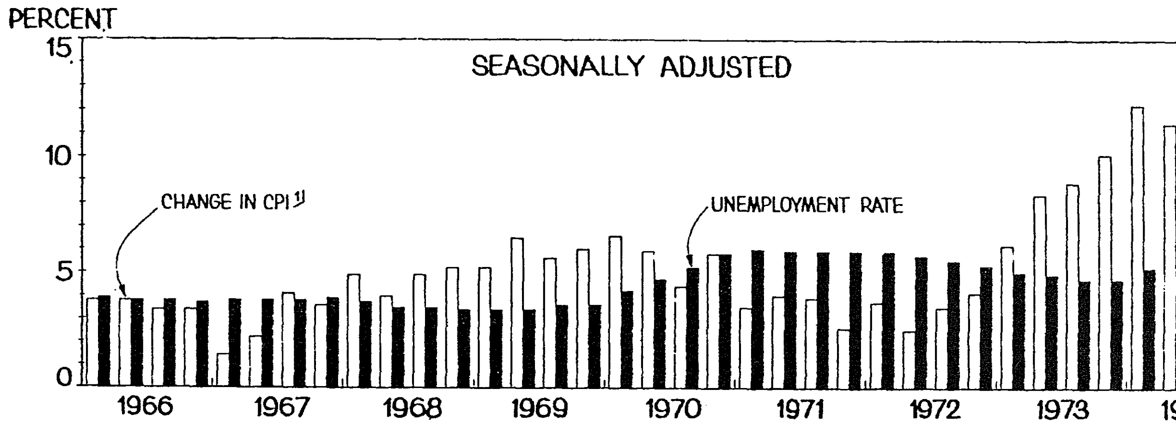
So we have a fairly unattractive period ahead, and I think that is the reason why we should be pressing very hard to diffuse the causes of this whole problem. It took a long time for us to get here. It's going to take a reasonably long time to get out of it, but we've got to start now and we've got to start and keep plugging at it because we can do a number of other

of the long-term goal in the process because the long-term goal of reducing inflation, bringing down the whole bloat in our financial system, is basically the only way that we can maintain and restore the type of viable construction industry and its financial elements. That's the only way we can restore these to what they were four or five years ago.

So with those remarks, Mr. Chairman, I will terminate my talk--not a lovely outlook, which I must admit doesn't please me.

[Applause]



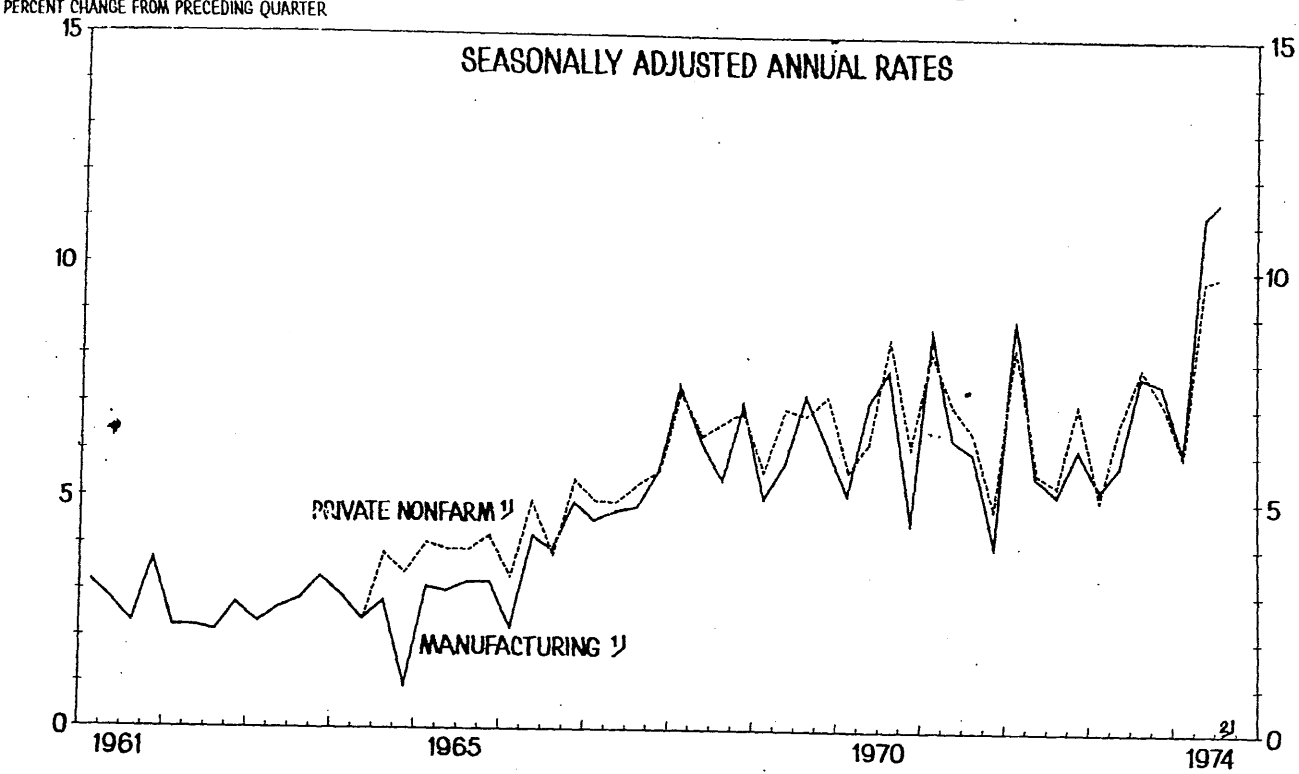


1/ CHANGE FROM PRECEDING QUARTER AT AN ANNUAL RATE.

2/ UNEMPLOYMENT RATE FOR JULY AND CHANGE IN CPI FROM SECOND QUARTER TO JULY.

SOURCE: DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS.

HOURLY WAGE RATES



1/ AVERAGE HOURLY EARNINGS ADJUSTED FOR OVERTIME (IN MANUFACTURING ONLY) AND FOR INTERINDUSTRY EMPLOYMENT SHIFTS.

2/ CHANGE FROM SECOND QUARTER TO JULY.

SOURCE: DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS.

Construction Industries

The Council of Economic Advisors

Near-Term Economic Prospects

is year has been a very difficult one for the American economy th prices rising at their highest peacetime rate and American milies experiencing cuts in living standards. In response to last nter's energy crisis real GNP fell sharply while unemployment creased moderately early in the year. Since then neither produc-on nor unemployment have changed much. With inflationary expec-tions deeply imbedded in the thinking of business and consumers is unlikely that we will see a great deal of improvement in e rate of inflation over the next few calendar quarters. At e same time total production is likely to remain very sluggish. nce the labor force will be growing we will probably see a rsening in the unemployment rate. Some degree of painful justment cannot be avoided if we are to begin moving in the rection of lower rates of inflation.

say that the economy is going through a difficult period is t to say that the economy is on the verge of a collapse. Although al GNP fell for two quarters it is well to keep in mind that dustrial production has edged up from its low point of last bruary. Although homebuilding has been weak and auto output s below the peaks of 1973, in many industries - such as steel,

onferrous metals, paper, chemicals and petroleum - capacity tilization is high and delivery times remain long The fact s that many crosscurrents are now at work in the economy eflecting differential responses by business and consumers to he inflation. The business response has been to increase pending while the consumer response has been one of caution.

usiness demand for new plant and equipment continues to be ery strong. Last week the Department of Commerce announced that businessmen intended to increase their spending for new plant nd equipment by 12-1/2 percent from 1973 to 1974. Although uch of this rise represents higher plant and equipment costs ather than increased physical volume it is significant that over he summer months businessmen taken as a whole did not scale back their plans in the face of sharp increases in interest rates and a worsening in prospects for demand and real output. Indeed, in the second quarter of 1974 manufacturing firms and public utilities substantially increased capital appropriations and new starts over the first quarter -- a development that suggests that last winter's difficulties depressed business investment plans much more than had been thought earlier. The existence of record backlogs of work started but not completed makes it likely that plant and equipment spending will hold up well over the next few quarters, and will provide the main underpinning for the economy.

vate nonresidential construction activity should be well ntained over the next few quarters because of the large volume work in progress. Shortages of materials have stretched out struction schedules. Spending in many of the industries ere investment plans are highest, like the manufacturing sectors ted above, involves heavy construction outlays relative to ipment. However, the high cost of financing and the slowdown the economy will reduce new starts with much of that impact ng felt in the second half of next year.

an overall basis inventories now appear to be high in relation sales or production. With interest costs very high we are ely to see businessmen pursuing cautious inventory policies er the next few quarters. Among industries the inventory cture is mixed. The auto industry went through a severe inven-ry adjustment last winter. Large stocks in textiles and apparel both manufacturing and retail levels have led to some production backs and even some price cutting in those fields. Producers durable goods, on the other hand, have built up stocks of sic raw materials as a hedge against rising prices. The end of is kind of inventory buildup will depress production, but so ng as the rate of inflation remains high businessmen will obably carry higher than normal stocks. Furthermore, the contin-tion of the boom in plant and equipment makes it unlikely that

e will be a major adjustment in inventory investment. All
d the rate of inventory accumulation is likely to decrease
the near future but the decline will probably be limited in
pe.

r the past year, consumer after-tax incomes in real terms
e fallen by 2-1/2 percent and real consumer expenditures by
ercent. Much of these cutbacks came from the impact of the
rgy crisis on automobile and energy purchases and output, but
sharp rise in consumer prices has also taken its toll. Over
next few quarters consumer spending will probably rise only
ghtly in view of the prospects for the rate of inflation and
growth in employment.

hough expectations of general inflation are causing consumers
be cautious, in some fields consumers appear to be buying
in order to avoid price increases later. This seems to be
case with automobiles, where sharp price increases for the
5 models have been announced. In the third quarter of 1973
sumers were buying domestic cars at a 10 million unit seasonally
usted annual rate, which was abnormally high and had little
bability of being maintained. With the oil embargo and the
stic shift in demand away from large cars the rate of purchases
l to about 7-1/2 million units in the first quarter of this
r. A small improvement in the spring quarter has been
lowed by a large rise in July and August -- in the neighborhood
9 million units.

rter of last year, the rise in unemployment since then has been erate -- from 4.7 percent to a rate of 5.3 - 5.4 percent July and August of this year. Most of the increase came last ter in the wake of the sharp cutbacks in the motor vehicle energy related industries. Since January seasonally adjusted loyment in nonfarm establishments has risen by 700,000, while average length of the workweek in the private sector has bilized after a decrease at the start of the year.

sonally adjusted employment in construction establishments fallen from 3.7 million in the last quarter of 1973 to million in July and August of this year. Over the same iod unemployment in construction has risen from 8.8 percent 10.8 percent.

moderate rise in unemployment this year has not been due to abnormally small increase in the civilian labor force. Since fourth quarter of 1973 the civilian labor force has risen ut in line with the long-term trend. Employers may be holding to labor because of difficulties in finding experienced help. is also possible that the labor market statistics are currently viding us with the most accurate measures of the real economy.

h policies aiming at restraint and with output showing little nge prospects are for only a slow rise in employment and

in the very near-term there will be any significant slowdown in the rate of wage increase. Attempts by workers to make up for the loss in real purchasing power over the past year will keep pressure on wages in the period immediately ahead. Large increases in wage rates coupled with below average gains in productivity mean substantial increases in unit labor costs and prices. But as 1975 progresses we should see some slackening in the rate of wage increase, some cuts in profit margins and some slowing in the rise in prices.

all of you know, the outlook for housing starts is grim for balance of this year. The savings outflow from the thrift titutions that began to materialize in April of this year since accelerated and is now running at a rate well in ess of $1 billion per month (before interest credited on pass-k accounts). Correspondingly, loan commitments at savings and n associations have been cut back at a faster rate than normal ough the early summer, falling from $13 billion in April to s than $11 billion in July.

stringency of mortgage credit has had predictable effects. tgage interest rates rose to well above 9 percent in most mary markets compared to less than 8 percent a year ago. the rapidly adjusting secondary market, the average yield on epted offers in FNMA's auction of 4-month commitments to chase FHA-VA home mortgages reached 10.6 percent on September 9, by 74 basis points from July. For several months now, new per-s issued in permit issuing places have hovered barely above one million mark so that the backlog of unused permits has lined by 15 percent from April to July and is now 27 percent er than a year ago. Bankruptcies in contract construction e from 124 in July 1973 to 154 in July 1974 while the value affected liabilities rose from $16.9 million to $42.8 million.

sonally adjusted annual rate for the second half of 1974. other words, they may decline beyond the previous low of 7 million units set for the first half of 1970, before recovering in 1975. Any lasting recovery to the 2 million unit level private starts excluding mobile home shipments, which we ard as sustainable, will continue to be thwarted until the e of inflation has been reduced by several percentage points n current levels.

ed with this sorry prospect for housing, some of you will urging short-term remedies. Our actions of May 10, 1974 which vided subsidized advances by the Federal Home Loan Bank System, sidized mortgage purchases by Freddie Mac, and increased dem commitments by Ginnie Mae already provide worhtwhile support a deteriorating situation. Tandem commitments have been issued the rate of 6 to 7 thousand per week recently, compared to o 3 thousand per week in June. Furtnermore, all of the $3 lion of below-market interest rate commitments to purchase ventional mortgages authorized for Freddie Mac on May 10 have n taken up and almost $2 billion of the $4 billion of subsidized ances to members of the Federal Home Loan Bank System have eady been paid out or committed. There have been suggestions t we go much further. However, we must be careful not to

location of capital permanently.

the basically non-inflationary environment that ended in
e mid- to late sixties, mortgagees could be expected to bear
e capital market risks associated with lending long at fixed
tes and borrowing short at rates which are subject to change.
though there were periods of feast and famine associated with
e credit policies surrounding the business cycle, these periods
uld be expected to average out in a roughly acceptable manner.

state of high and variable rates of inflation, however, imposes
insurable risks on the thrift institutions. For once inflation-
y expectations have become strong and resistent to treatment,
e bad event will follow another. At first interest rates
se but less than would be necessary to reduce the rate of
flation. Then the rate of inflation rises some more pulling
e interest rates up with it. It may take several years to
wind this spiral of interest rates and inflation. During
is time the thrift institutions are caught between the Scylla
artificially depressed deposit rates coupled with large
vings outflow on the one hand and the Charybdis of being
able to generate sufficient profits from the total mortgage
rtfolio whose average yield rises far less than current
terest rates on the other.

ion in recent years have adopted indexed mortgages or
le rate issues, accompanied by corresponding rate flexibility deposit side. The uncertain period ahead would be less ult if these and other structural reforms would increase ility of the thrift institutions to cope with inflation l as the political willingness of government to bring atè down. Even though it was not the thrift institutions ade the current inflation, we all have to live through such reforms may help.

VI

General Discussion on the Overall State of the Economy and the Problem of Inflation

les of conducting the conference throughout the con-
ence. The first part and the last part will be one
re I will try to recognize as many people as possible
discuss the particular issue within the time that we
e to do so. When we get to housing specifically, as to
t the situation is and what ought to be done about it;
n we get to construction, where we are and what ought
be done about it; we have broken the conference down
o panel presentations. That, of course, is a somewhat
ferent way of doing business.

I think the questionnaire that we handed out
night will be extremely useful, particularly in the
phase of our discussion; and all this calls for
public interest's hat on--put the hat on. As
sident of the United States, or as a gentleman in the
ress, in the Senate, and for the House of Representa-
s, how should you look at the picture overall. Not
ing at housing specifically, not looking at construc-
specifically, but the good of the nation overall;
that's where we are at this point in the conference.

me to the extent that they could people that they

d like definitely to have heard; and I have a list of

e people. And with your indulgence, what I will do

all on the people that have been provided in that

. I will then go into just recognizing people generally

his discussion.

What we are talking about here, as the agenda

s, is how much of a problem is inflation, what it's

s are, and possible solutions. I would appreciate

much, if you could, that you keep your remarks down to

say, three minutes, if you can. I call on Mr. Rice,

ident of the Producers' Council.

My name is James P. Rice. I am president of the oducer's Council. I want to thank you for being here. seems to me that the control of inflation begins with e desire on the part of us all for it to be halted. We eel" or "sense" this in the form of a pervasive notion at the time has arrived when we must bear the burdens corrective adjustments and must help in the mutual discovery of our national purpose. This means an crease beyond traditional patterns of personal savings, e bearing of additional taxes if required as part of the lution to governmental financial problems, the willing- ss to postpone additional income until it can be alized in the form of lower prices and higher levels of rchasing power through dollars that have more value.

Those who are elected, employed or contractually tained by the Federal Government should respond to this tional desire to halt inflation through actions aimed correcting federal government financial problems. This ans isolating that portion of the debt which is unsecured d beginning an orderly process for its liquidation. It ans making full provisions for funding pension commit- nts that have been and are being made to those eligible

ired adjustments to assure that promises for the
re will be fulfilled and that the cost borne by those
employed is equitable.

It means being aware that the United States ar is the currency standard for the free world and pting all the responsibilities that this entails. It s adopting tax policies that encourage savings, in-sing industrial productivity and enabling the creation of onal wealth. The latter should come through policies stimulate the development of property and equity es and that make possible the jobs required to oy a rapidly expanding adult population.

When the organizations of the private sector porations, institutions, partnerships, proprietorships) anter the administrative and regulatory activities of federal government, we need to recapture an attitude agh which all the parties consider each other as tomers." There are too many instances where the point ncounter between the public and private sectors is like an's land. Communications break down. Delays can be rminable. Costs can mount beyond belief. We need a e of urgency to perform tasks well, to recognize

omas Jefferson spoke to this in his second inaugural dress. Businesses and persons can go bankrupt but the portunity exists to start over. Governments that fail manage their money affairs prudently eventually repud-te their national debt and ultimately fall. We must ep this in mind as we realize that during the past enty-four months our federal government interest expense, id for with tax dollars, has increased from an annual te of 22 billion dollars to a current rate approaching billion dollars. If this rate holds up and continues increase, debt default will become a real specter and e debt service demand on tax dollars may well foreclose l options to adopt fiscal and monetary policies that e productive and creative.

The need to reduce this expense is a dominant iving force toward measures that reduce interest rates. l who hold positions of leadership in this country are blic trustees. It's a duty and responsibility to act th wisdom and to use best judgment. There can be no fuge in anonymity, no hiding place in a crowd when hard cisions must be reached. It's also a duty to publicize d explain facts in ways that all of our people can best

d responsibility. For the private sector in

lar there is an overwhelming need for us to

and that compensation is a result of success, not a

ner to creative values, that profits are deriva-

d the means for building and expanding both our

c base and tax base.

Mr. Secretary, I commend President Ford for

ng this conference and express my thanks to you

invitation to participate.

:

Thank you, Mr. Rice. That was what we call in

cutive branch a three minute -- and as sometimes we

on the Hill when we have somebody testifying. It

ery thoughtful statement, but I will ask all of you,

ind you, that if we are to hear as many people as

e, we will have to enforce a three-minute rule.

The National Associ-

ation of Building Manufacturers.

OLMES:

Mr. Secretary, my name is William Holmes. I'm Treasurer of the National Association of Building Manufacturers. I heard your instructions, so I will skip the first three pages of my presentation.

CHAIRMAN:

Let me just say this is one of the reasons why I think that papers are so useful. It allows us just to hit highlights of the comments that are spelled out in more detail in those papers; and, also, as I said, I think that in the results of the questionnaire, the feelings of the group, where there's division, where there's concensus, comes through quite well.

Go ahead, sir.

HOLMES:

Thank you. Later in today's activity, the agenda calls for discussion of certain specific recommendations directly relating to the troubled housing industry. The National Association of Building Manufacturers has

g one of the most basic needs of our people--

It is unitarily understood that inflation means dollars and values in terms of goods and services dollar will buy in times of exhuberant economic so-called creeping inflation. I happen to hat a great many people and perhaps a large are only vaguely discomforted by inflation. There was a devaluation of our dollars, but always more dollars to be had. They form, a perpetual-motion money machine.

I had planned on dealing with four characteri- and I'll reduce this if I can to about two y saying that, first of all, there is no absolute ivocal lasting solution in this temporal world ng. There are, however, ways and means to deal lems as they arise in a context fitting the ircumstances. I consider these points to be we are to find lasting solutions to control

one, to strive for a balanced budget through nation of nonviable government services and the of excessive staffing in all branches of govern- o, to provide tax incentives and deterrents

nd devices and discourage nonproductive speculation in
he monetary commodity market. Three, we should monitor
nd control foreign aid and foreign investments to insure
urselves that such investments are truly and are reasonable
n our long-term best interest.

Mr. Businessman, on the face of your problems,
'm sure that you do not wish to raise your prices; but
understand why you feel a sense of helplessness in the
ace of the inflation monster.

Mr. Laborer, I understand why you may vote to
trike even though you may wish to continue working. You,
oo, sir, are being pushed into a reluctant decision
ecause of inflation.

Mr. and Ms. Retiree, please, do not feel that
do not understand. Even if I were lacking in compas-
ion for your situation, selfishness alone would force
e to face the realization that sooner or later your
ilemma would be my inheritance.

ich your life by opening up to you new opportunities to experience a sense of accomplishment and other ards which come to those who are able to strive con-entiously for individual achievement. I see a lot of y heads here today. I know that many of you remember 1930's. We didn't have any buzz-word then such as illing" or "fabulous"; but you know that that was a real gh decade. Through the answers of that traumatic erience we have somehow found a way to revitalize this ion, and I really think that a lot of us believe that are stronger for the experience. Let's get together v and polish off the inflationary enemy. Let's pledge r leadership our support for all honest and equitable ograms. I know our people are ready and able. If we ally try, America will receive the grace to set an ample which will enable all mankind to enlighten and rich the experience of life for all people.

Thank you, Mr. Secretary.

N:

hank you, Mr. Holmes.

Improvement Council.

ST. LAWRENCE:

Thank you, Mr. Secretary.

My name is John St. Lawrence, and I am President of the National Home Improvement Council representing the remodelling industry contractors, and I thank you very much for the opportunity to speak on their behalf.

The factors of sporadic inflation that have been outlined in detail here this morning are causing a great deal of concern in the remodeling industry. We are losing contractors each and every month. We therefore say to you that we in the remodelling contractors industry support the position stated in the issue paper presented here today and just say on our own behalf that we do not recommend full wage and price controls. We do not ask for any government subsidies for the remodelling contractors industry under the remarks recently made, Mr. Secretary, in the FHA Title I Improvement Bill --

CHAIRMAN:

May I just say that Congress did that.

ST. LAWRENCE:

Yes, sir, I understand. We ask this administration

get to bring fiscal responsibility to the federal spending gram. And we urge the state and local governments to likewise.

We thank you for this opportunity to appear here ay, and we submit to you that this has taken less n two minutes.

Thank you, Mr. Secretary.

MAN:

I appreciate both of your comments and the ervance of the time limit and making up the minute me. Thank you.

Association.

. SANSON:

Thank you, Mr. Secretary.

I have been reading through these position papers through the evening last night, and in them I have found only inflationary movements, not those things that deter inflation. I believe that things can be done immediately in certain facets in order to stimulate housing and not to increase inflation. For instance, that the local mortgagee and FHA should be responsible for the economics and marketability of their project.

In the housing of people, we should be given back our definite rights as landlords in order to run our business as a business, not on theory.

Tax laws should be changed to take away the shelter part of the apartment industry in order that we are back in the cash flow business rather than the tax business.

And, gentlemen, let's don't ask for donations.

et's ask for work and stop this monster we have on our

ands.

Thank you.

IRMAN:

Thank you, sir.

Council of Housing Producers.

ROAD:

I'm Eli Broad. First let me start out and comment that we've got representatives of government here today, industry, labor, finance, low and moderate income families, environmentalists, the aged, but really not any one person in particular representing the average, middle income American housing consumer.

I would like to take the liberty of giving you these oints. First of all, home ownership is an American radition. We are a land of homeowners. Over 60 some dd percent of our families own their own home, and n that way we have a stake in the free enterprise ystem. Home ownership represents the bulk of the verage American family's net worth. It has traditionally een the consumer's protection against inflation as pposed to savings accounts, life insurance, investment n securities and mutual funds. Also, the American amily has realized significant tax benefits through

ion, I believe, that the average American family
es that he has a right to own his own home, and
easy to forget that as the awareness goes forward
his right is nothing more than a pipe dream, and
our hope that the American public, press and those
g public office will look at housing and home
hip as a very major political issue.

et me talk for a moment about needs. I think we
ow the numbers going back to the Kaiser Commission
in '68 and the more recent study in '73 of the
MIT-Harvard study which indicated a need for
g some 20 percent over the earlier projections.
know that we are not meeting those goals. I'm
ing to comment--everyone else will, I'm sure--
how much further housing production will sink.
would like to say is that we have in effect taken
12 million American families that were in a private
in 1965 through 1972 and taken them out of the
e market with the inevitable result that we are

Let me be more specific. Between 1965 and today the average median price of a home went from approximately $20,000 to $36,000. That's an increase during the nine years of 8.9 percent annually. The Consumer Price Index during the same period went up about 8 percent average per year. Median family incomes went up about 10 percent. So, at that point if you stop and say, "There is no housing problem; in fact, we broadened the market for a new home." Well, what's the hooker? The hooker is that in 1965 we had a 5-1/2 percent interest rate, and the hooker further is that people don't buy a home based upon their price; they buy a home based upon their monthly charge. And if we take today's 10-1/2 percent price on money and add it to the increased price of the product, instead of having monthly charges go up 8.9 percent as they would have had interest rates stayed constant, we see monthly payments going up over 21 percent during that nine year period--

ROAD:

--and, as a result, we reduce the market for our product, and we find 12 million families that cannot purchase the home they could have as shortly ago as two years ago.

Thank you.

HAIRMAN:

Thank you.

of the Federal National Mortgage Association.

R. HUNTER:

We are vitally interested in the problem of inflation because we finance our purchases of mortgages with borrowed funds, and we of course cannot continue to function if inflation is not brought under control.

We recommend a balanced budget. We think that the rough figure of $300 billion is a reaonable and obtainable figure. We feel that in the '76 budget that it would be well to incorporate a planned surplus against contingencies. Because housing is affected disproportionately by monetary restraint, it is necessary for the good of the country that certain countermeasures be taken, particularly at a time like this.

And then in our paper we have recommended certain additional steps. I don't think, Mr. Secretary, that it is necessary that we go into this at this time because

country. We feel that the administration's mmendations for tax credit on mortgage interest efinitely necessary as an incentive to the mortgage stors.

But inflation is a primary problem. For comparison an go back to '72, when we had a record number of ts, 2,400,000. We then had an inflation rate of, ink, around 4 percent. The FHA-VA ceilings were rcent, the market was about 7-1/2, and today we're ing about maybe a 1,300,000 or 1,200,000 starts and nflation rate of 10 percent and better, and the ts are, we should say, considerably down. So that, in all, there is no question but what the problem

nflation is very damaging and seriously damaging he housing industry.

Thank you.

AN:

Thank you, Mr. Hunter.

President of the AFL-CIO Building and Construction Trades Department.

MR. GEORGINE:

Thank you, Mr. Secretary.

I think that since we are going to save time, we have a prepared position, and we are in a position to make recommendations and go into much more detail later on in the program. But I would like to say at the outset that labor as a whole has suffered a reduction in purchasing power. In July of 1974, the average weekly earnings of 52 million non-supervisory wage and salaried employees, after deduction of federal income and social security taxes and adjustment for price increases was 5.3 percent below July 1973 and about 7 percent less than in October of 1972.

Despite the increased unemployment and and the reduction in workers' purchasing power, there are those who would remove statutory labor protections and ask construction workers to accept lower earnings. Now, this

ropolitan areas we have unemployment rates as high

between 35 and 40 percent.

So, we are here today to participate in this

ference. We welcome the opportunity, and we stand

dy to make the recommendations that we think are

essary to correct conditions.

Thank you, Mr. Lynn.

MAN:

Thank you.

Alliance.

DOLBEARE:

Thank you.

I think we need to view inflation as a symptom and as a very serious one of a very much broader set of economic problems. We need to include the persistence of poverty, unacceptable rates of employment, particularly among minority people and youth, the misallocation of resources and priorities which has resulted not only in neglect of rural problems in rural areas but has compounded the problems of our cities. Unless we deal with inflation in the context of dealing with these broader problems, I think we are likely to find ourselves, as we have already in housing, solving one problem, perhaps, but aggravating many other problems.

One thing that has so far been eliminated completely in the presentations that we have heard from the Council of Economic Advisors has been the fact that the major impact of inflation has been on the poor. It seems to

ample, I think that governmental neglect in
s has contributed immensely to the fact that
d racial minorities are bearing a
onate and insufferable brunt of inflation
e solutions that we evolve today and at the
erence and in the other conferences needs to
previous defects in the policy of benign

areas, for example, have a third of the
with almost half of the poor and almost
of the sub-standard housing. 63 percent
eholds in rural areas have incomes less than
ere are a million more households than
in 1970 with an average of only $14 a month
Things have gotten worse since then, and we
l with these problems. I think we can
hese problems without challenging the
that was implicit, at least, in the presenta-
he federal budget needs to be cut.
estion, it seems to me, is not how much we
ow we spend it and how we pay for it. And

s, the receipts, federal receipts, which are ne because of the provisions of our tax laws. If ad been included, they would amount to something quarter or one-third of the total of the federal . And in housing this is particularly important e the tax subsidies in housing are roughly $10 n a year. They are 45 times as much as the other g subsidies that we tend to talk about today. On capita basis, the average tax liability in 1970 useholds with incomes below $3,000 was $56. For old with incomes above $10,000 it was $179. In words, we have a perverse relationship where the oney you have the higher the subsidy you get. d to address this.

t seems to me that basically what we need is a hensive approach to housing. We need to deal with oblems of the poor, the problems of the elderly, e problems of the minorities. If we did this ldn't, as we have in the past, leave out the ms of rural areas because we will be addressing rehensive set of needs in a comprehensive way.

have delivery mechanisms, and we have to deal
lation. We have to deal with the problems of
on. We need to deal with the problems of
g resources. This can't be done in the frame-
ch many of us, I think, have been trying to
it in terms of what are existing programs, what
ting policies.

specific recommendations in the statement of
using Alliance and the statement of the National
using Coalition are basically that we need to
a new look in the role of the federal govern-
e have to recognize that we don't have unlimited
s. We have to therefore look again at the
on of resources between the public and private
nd re-think what the responsibilities are of
ral government to deal with the housing problems,
r problems of all Americans and particularly those
suffering most from inflation.

ank you.

hank you, Ms. Dolbeare.

. HOLMAN:

Mr. Secretary, we have recommendations and a report that were given last night, and I won't try to go into some of those from the Housing Task Force.

I would like to make these observations. Inflation is so ramifying a problem for minority and low income people and people on fixed incomes that almost any workable strategy seems to them worth a trial short of depression, but that is what life is like already for a number of people in the rural areas, ghettos and barrios of the country. If we can't cure the whole system at once, it seems that housing is a good place to start because this is in the deepest trouble of any sector of the country. If the economists would not protest too much, I would suggest that to increase housing supply and lowering the cost of new housing would actually counter inflation, given the current upward trend of rents and prices fed by the inadequate housing supply, the impact of the moratorium about which we haven't heard

deal with the whole dichotomy of the economy,
nt to try to seek if federal and state govern-
might try to see if they can concentrate on
al areas of these, such as houses, to provide
low interest loans for construction and mort-
oney, tax credits to financial insitutions,
centives for savings. If people are to take
sly the need to pare down the federal budget,
everybody must go on short rations.

t's hardly tolerable to label every human need
cretionary and insist on what some of us
er a fairly high peacetime military budget
ecial supports and allowances on what we need
ast.

conomists can better argue the job hunting
on and others than I, but I would like to sug-
hat it's very important that the new council
t to see to it that it does not too long lin-
any given approach or strategy if that does
em to work.

inally, I would like to say that it appears
that ultimately what this conference and the

adopted are going to work, it also seems to me that people are going to ask how fair and how equitable can your decisions be; taking the rate of inflation down and strengthening the economy is going to hurt -- Our hope is that the hurting will be shared in some fair and proportionate manner.

Thank you.

LYNN:

Thank you.

n Road Builders Association.

E:

My name is J.L. Cone, Junior, and I'm President
the American Road Builders Association.

We strongly believe that we should have a bal-
ced budget. In fact, the highway program and air-
rt program are already operating on this basis.
ey probably the only federal aid programs that
e fully funded on a pay-as-you-go or pay-as-you-
ive or fly basis.

The Highway Trust Fund has a cash balance of
.5 billion. The Airport Airway Trust Fund has a
lance of $1.5 billion. This is $9 billion in
e taxes already collected, but not put to work.
fiscal year 1974, the Highway Trust Fund revenues
re $6.5 billion. The cash payout was only $4.5
llion. This is a difference of $2 billion. Last
ar, highway revenues were the highest ever, but

essential programs to the best interest of the economy.

Yes, we need to balance the federal budget, and we have more than showed the way in the highway and airport construction program. Our complete statement will be presented later in the day. It speaks to this issue and several other important items affecting construction in the economy.

Thank you, Mr. Secretary.

LYNN:

Thank you, Mr. Cone.

ociation.

Y:

Thank you for the opportunity of presenting the ws of the National Contractors Association.

I think one of the things that has been kind said at the moment is that the real culprit is inflation we're suffering today is the cost ergy. Our economy is energy oriented, and our ies in the last few years has frustrated the opment of energy. I think a prime effort can de to increase not only our independence, but wer the cost of energy. This is rubbing off ery sector of the economy.

Our coal industry has been slowed down. Costs aised tremendously by environmental problems y OSHA. These need to be reviewed. Our atomic y and power generation has been slowed down se of lack of action on the part of the Federal Commission and the Atomic Energy Commission

through Project Independence, but largely through the private sector, we can stop this tremendous increase in the cost of energy, and this will give everybody a chance to catch up.

Thank you.

YNN:

Thank you.

ngineers Council.

JRER:

Mr. Secretary, I'm Malcolm Meurer, President f the American Consulting Engineers Council.

We've heard a number of general statements on ne effects of inflation and the absolute necessity f working together to overcome this problem. I ill not repeat what has already been said on this ubject.

Our prepared statement includes a number of etailed suggestions. We hope that these will be tudied and considered in the context of the entire conomy and that at least one of the items will be- ome of some value. I would like to emphasize three sic items. Double digit inflation will not go way until fiscal integrity has been restored to the ystem. This means, in our opinion, a balanced ederal budget restoring the principle of compensa- on which reflects productivity and reducing or liminating design and construction costs which do

This can be accomplished through more basic and applied research, realistic standards, productive rather than punitive or restrictive regulations governing safety, environmental protection, equal opportunity for employment, elimination of red tape, and programs for education and training responsive to the needs of the labor market place. Third, a final idea that does not seem to have been included in previous remarks is that one factor contributing to inflation is our continuing foreign trade deficit. Surely if we can develop a net, positive income on the export of goods and services, the strength of the dollar will greater, and an effective government-industry foreign trade effort is highly recommended.

These and other recommendations are detailed in the paper which we submitted to the council, and I thank you for the invitation to attend this meeting. Thank you very much.

LYNN:

Thank you, sir.

ngressman Widnall has been able to join us
ill, do you have any remarks that you would
make at this point?

ank you, Mr. Chairman -- Mr. Secretary.
just have a few thoughts that I would like to
o the discussion here today. First of all, I'm
hted to be part of it. As I said, I think it
tremely important and is the beginning of a
effort to do something to combat inflation
o stimulate the present construction industry.
ieve personally the best way to increase
ng is to decrease inflation. However, we must
a way to revitalize housing at the same time
y to stop inflation. That's the task that's
ut before us. I believe this series of mini-
ts culminating in the conference at the White
at the end of the month will serve a very
l purpose. For the first time, the American
e will have an opportunity to witness a can-

ffected by the serious inflation that's upsetting
ne economy. The contacts I've had indicate a deep
sire to work together to achieve a common goal. If
is conference does nothing more than establish a common
nd in fighting inflation, it will be a success. And
see more and new approaches and some variations on
me old approaches which are certainly
rthy of further consideration. The period be-
een now and September 27 and 28 when the summit
ll be held at the White House will be very impor-
nt in distilling the many suggestions made here
day. I am very anxious for this summit and hope
at all of the pieces can be put together to fit
to a very comprehensive anti-inflationary program
ich also assists the home building industry. I'm
lighted to see so many leaders here today from
e various segments of our economy. It can't do
ything but be helpful.

Thank you.

N:

Thank you very much, Mr. Widnall.

and the House will have some particular questions they would like to address to the particular people that have made statements thus far.

Mr. Barrett?

ARRETT:

Mr. Secretary, just to get a brief exchange on the presentation, I would like to ask Ms. Dolbeare if you recall in the 1972 Act, we were -- I should go back to 1968. We were interested in getting 26 million homes over a ten year period, namely, from 1968 to 1978. Unfortunately, we were not able to get the housing bill through the Rules Committee in 1972. I agree with you and your group that more public housing is needed, and I was wondering if you would be able to tell us approximately how many units you think would be necessary to take care of the people who are in need of low and moderate housing, particularly those in public housing. Do we have any type of estimate of that?

housing serving people that are now served in the income range served by public housing, that is, with incomes up to $5,000 or $6,000 a year. It's hard to get up to date on these estimates because the cost of housing is rising so much higher. My view has always been that those official estimates, while they gave us a nice goal to shoot for, were much too low. There's some estimates attached to the paper of the National Rural Housing Coalition from the RHA, which estimates a need of 30 million units total for ten years, a need of one third of those to be subsidized and half of that production to be in rural areas.

BARRETT:

Thank you very much.

LYNN:

Thank you, Mr. Barrett.

I don't have a question. I have a question
everyone that's spoken so far, but I don't ex-
now. I would like to ask permission of the
rman and the acquiescence of the participants
espond to my question in writing or in contacting
taff in the next week or so. The question is
: You've all emphasized the balancing of the
et and the expenditure side of the picture, and
ve all tacitly touched upon the revenue side,
tax side, of the picture. I assume your
rs which I have not had a chance to read expand
that. If they have not, I'm very interested to
, especially from those of you who have mentioned
tax side, either in the form of the first gen-
n, Mr. Rice -- at least he breathed the phrase,
tional taxes -- and several of the remainder of
ndicated the need for a change in the tax laws.
very, very anxious to find out what those sug-

me and my staff, I would appreciate it a great deal. I think it's an important side of the picture.

YNN:

Thank you, Senator.

I think the questionnaire is very helpful in this regard because one of the questions that was asked is that if the budget is to be brought into balance, do you favor bringing it into balance by reduction of the expenditure side or by an increase in federal revenues, and I trust that people understood that question to increase federal revenues to mean increasing it one way or another through the taxation process. So I think we'll get a feel from that, and I think that all of us would like to know some more on the very question you've raised.

What I would like to do at this point with some of the remaining time at least is to ask whether there's anyone here that has a question to address to someone else who's already spoken, a point that was made where they would like to make a response to it or to ask a further question of clarification. One of the things that I did notice -- and, of course,

rther assistance, the need whether it's for
g or whether it's for other programs of var-
inds. Mr. O'Neill sits in an agency of the
l government that has to deal with finites.
y his list up there of what they break down
ontrollables, uncontrollables, funds that if
re to cut them would involve a breach of con-
or a negotiated settlement and so on. The
onnaire again, I think, is somewhat useful
espect to questions like if you were to see a
t, would you like to see it proportionally
the board, would you rather have it be more
roportionate in the case of defense and foreign
ould you rather have it be more than propor-
in the domestic programs, and last but not
if you do favor a cut in the domestic pro-
where would you cut them? I said it's some-
nformative because there's quite a band of
n you will find when you see that questionnaire.
t that range of opinion is also evident from
nversations thus far. Any effort at reduction --
is the President has said that his goal is to

be balancing the budget, reducing federal spend-
-- but increasing federal spending at this point?
now that sounds outrageous, but it's been suggested
witnesses before the '74 budget committee. Is there
one here who goes along with that position?

Ms. Dolbeare?

EARE:

I do. Because I think that Mr. O'Neill
it very clear what the constraints are with
cing the federal budget.

I think the key thing, however, is
reduce inflation, plus have the budget in balance.
I have some questions as to that.

There are two ways to balance the budget,
I think there are so many necessary expenditures
housing and other programs that are badly needed
would provide social and economic justice --
se taxes, closing loopholes, perhaps a temporary
surcharge -- balance the budget that way. But
hink it's going about it wrong to try to cut
enditures which inevitably seems to be to cut out
rams which benefit one important segment of the Amer-

ABLE:

Mr. Secretary, I'm interested in the fact at there's been little discussion so far in pre- rving the incentives in the real estate industry, r the potential sheltering of other income. This a matter now being dealt with in Washington and the Ways and Means Committee. And we've been are of substantial lobbying for the real estate dustry for the preservation of these incentives.

Yet, it's not been considered a basic item re -- at least as far as discussion has been con- rned so far. I realize the high impact would be re on heavy construction than on housing as such, t I do think there's a good deal of interest in is in the real estate industry generally and I'm rprised there hasn't been any discussion of it is morning.

IRMAN:

Is there a response to that?

Mr. Broad?

AD:

I agree with the National Apartment Build-

es.

In addition, I want to state a position, ch is a personal one and not that of the Council Housing Producers. That is: I believe serious sideration should be given to taxes in taking the fit out of land speculation. The reason I say t is that one of our fastest-increasing costs of sing interest rates has been the price of land. , a good deal of that price inflation in land has n as a result of speculation -- investment, if would -- whereby nothing is added to the value the land by the invester speculating.

So I'm saying let's do as they're doing Ontario and in some European nations and put a on the price of land by taxing the profit out of d speculation. Perhaps these are ways we can pay some of the things we're talking about here today.

BLE:

I'd like to say that I'm inclined to agree h you. I think that the effect of these sometimes ificial incentives is to disturb the pattern of estment in this industry rather than to put it in

IRMAN:

I believe that at least one of the formal papers resented a lot of support for the effort to remove rofits in land speculation.

Congressman Ashley.

ILEY:

Mr. Secretary, there seems to be a general onsensus that for the long term, or perhaps the hort term, the whole building and construction ndustries can only be truly benefited if inflation brought under control.

At the same time, there appears to be a onsensus that the recession-depression in which he home-building construction industry finds it-elf requires, perhaps, substantial assistance from he federal government. Hence the dilemma. Where o we go with these apparently contradictory sets of equirements? In terms of what Dr. Greenspan has aid -- perhaps I have misjudged this but I think ot -- the fiscal actions and the monetary ones that re taken to cope with inflation, at least precisely hose steps taken to cope with the recession, I'm

MAN:

So will I, Congressman Ashley.

Now, I think we will have an opportunity o into those specifics in connection with the ing Panel or the Housing Panel's representative, will speak to us right after the break.

There's one over here.

UGH:

Mr. Chairman, I'm Edward Carlough. I 't here last night, because it was my twentieth ing anniversary and regardless of the present is in the twentieth century, I'd rather be with ride than you, gentlemen.

MAN:

The priorities are very good, sir.

JGH:

I had no choice.

I represent the Sheet Metal Workers International Union and our position is clearly stated roperty.

I'm a little disturbed -- I don't dare say to balance the budget. I'm for motherhood and

If a miracle were to occur and the budget were in balance in fiscal '75, this country would still have a very serious economical problem. An unbalanced budget did not cause the rise in food prices, the imbalance of the budget did not cause the skyrocket of our energy costs -- the sheiks in the Middle East have sandbagged us with that problem.

We in the construction industry need a good supply of money at decent interest rates more than any other segment of this economy. Most of our contractors are small and not like General Motors or bluechip organizations who can finance internally. We must depend on the money market; we must depend on men like Mr. Whyel across from me; we must go to a banker. If the banker does not have money at reasonable interest rates, the projects cannot proceed and the projects cannot be completed.

In the face of the money problem we have in this country -- from a $1 billion outflow in foreign loans in 1972 we moved to a $2 billion outflow in 1973, and the first six months of this year

AN:

Excuse me -- Is that net-investments in,
st investments out?

GH:

You'll have to ask my economists, sir.

We're concerned with balancing the budget;
have to be concerned with the social costs as
And my greatest concern is unemployment. Mr
ine pointed out a few minutes ago that the un-
yment rate has reached eleven percent. We have
d many laborers, heavy equipment operators and
s that unemployed.

We'd like for this conference to think in
of balance, to think in terms of both the prob
of inflation and the problem of employment.
ld measures are not working -- and when the old
res are not working, I don't think it's the
al that's the problem, I think it's the epitome
nservatism and I suggest we look elsewhere for
nswers.

Thank you.

I think probably Mr. Georgine contributed part of the answer, but I was just back in my district during the past weekend and I found labor saying that the unemployment in the construction trades was at a practically all-time high -- over forty percent. In the union halls, no men were showing up now because there wasn't any work, and they were getting all kinds of spot jobs like driving taxis and cutting lawns and that kind of thing. It's a very serious proposition up there.

It's also complicated by the fact that even when people can get the mortgage money today, they can't get the materials. And I'd like to know where the materials are going, where they are stored or stockpiled -- because, certainly, the construction is not taking place. I feel that somebody must have some answers in connection with this.

We have a problem, too, in talking about construction: we can't get anybody to work for one, two or three days on a small construction job -- because, naturally, most people want to be employed for a longer guaranteed period of employment, rather

nd others here? What are the answers to the..
ems?

AN:

Mr. Georgine?

NE:

Quite obviously we have addressed oursel-
o that material shortage problem. We do have
erial shortage problem. What is the reason?

I suppose that since the prices in the
market were better than they were here during
type of controls, many manufacturers were sell
heir reinforcing metal overseas and their
-metal to Japan. And there wasn't enough scrap-
here to produce reinforcing steel. Zinc was
t impossible to get for a long time.

So, the material shortage certainly con-
ted to the unemployment and to the long-delayed
nuing projects that were underway.

AN:

Thank you, Mr. Georgine.

May I hear, at this point from Mr. Lloyd
s of the U.S. League of Savings Associations?

the President and his office, and his colleagues, for the efforts that he and his colleagues are making to help the economy on behalf of the American society.

We are pleased to join in this effort to deal with inflation and the problems it has created.

Mr. Secretary, it is quite obvious -- it is clear -- that no segment of the economy has been more affected than that of housing. The current inflation reflects not only on the fiscal-monetary problems, but also on some fundamental changes in American society. Everybody appears to want everything, and they want everything now. There is little inclination to defer, to postpone or to save.

We appear to have shifted from a society that has been oriented primarily toward production and saving to a society that is oriented largely to consumption and spending. We believe the fiscal and monetary aspects of inflation can be put intact immediately and we recommend that the achievement of a budget surplus be made as soon as possible.

We recommend the continuation of tight

We favor the achievement of a budget sur-
the limitation of spending programs, if
But, if it is necessary, we favor increased
assure increased budgetary service. We
willing to support a type of surtax with
eeds locked up for release back to the tax-
some future time when needed to bolster the
activities.

Now, in order to shift the emphasis from
and consumption to saving and production,
the adoption of policies that will stimu-
ings -- particularly by means of well-design-
centives. We also favor the use of tax
es to increase productivity. We favor both
tal and private efforts to stimulate train-
the introduction of improved technology in
increase productivity.

We do not believe that the unemployed
forced to carry an unduly heavy share that
e from any anti-inflationary policies. Thus
federal programs of employment training,
uld make certain that all who wish to work

of greatly increasing unemployment or requiring the unemployed to carry a disproportionate share of the adjustment process.

Thank you, Mr. Secretary.

E CHAIRMAN:

Thank you, Mr. Bowles.

listening for some time to the discussion.

Senator, can I call on you for some

nts?

:

Yes, sir, Mr. Secretary.

I first also want to thank you and the

dent for holding this conference and I want

sociate my remarks with those made by the honor-

his twentieth wedding anniversary.

I feel very strongly that the balanced

t is not going to solve our problems of infla-

alone. There are other social problems and

problems that we can no longer delay. Our

ng industry is in a recession and heading for

ression. The facts are alarming.

Housing starts dropped to an annual rate

3 million in July, down from 2.06 million last

nd 2.4 million in 1972.

percent -- as has been said -- more than double the rate in the labor force as a whole.

Mortgage interest rates have risen to ten percent or more in some areas and no mortgage money is available in other parts of the country.

120,000 new housing units stand vacant because potential buyers cannot get mortgage financing.

Clearly, housing needs help, and it needs it now. Over the next few years, we as a nation will have to come to grips with some complex issues such as disintermediation, allocation of credit, land use policies and industrialized housing. The sooner we address these issues the better. But today we face a more immediate challenge: finding a way to avert a depression in the housing industry over the next six months.

I believe that the federal government can and should act quickly to get the housing industry

ty in the housing in the housing sector is
ically sound policy and not inflationary. I
e that the sooner we act the better it will be
e builder, the worker, the consumer and for
onomy as a whole.

The federal government should immediately
se housing production under federal low-income
g programs and also move to provide interim
ge credit assistance to the home buyer.

The Housing and Community Development Act
4 -- of which you played a large part, Mr.
ary -- which was signed by President Ford on
22, 1974, authorized some $1.2 billion in
contributions contract authority to provide
g assistance for lower income families in
1975. This money will support the construc-
f over 500,000 units of low-income housing
he next year

The Housing Act offers a chance for the
ment of Housing and Urban Development to end
ratorium on construction of housing units for
come families. This moratorium, a mistake

around 180,000 per year in 1973, with still lower production likely in 1974.

The MIT-Harvard Joint Center for Urban Studies estimates that 13 million American families, or 20 percent of all families in our country, are deprived of decent housing at a price which they can afford. It has been 25 years since the Housing Act of 1949 stated our national policy as "the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family." For 20 percent of our families, the promise of a decent home remains just that--a promise, not a reality.

By lifting this moratorium on construction of federally assisted low-income housing units and stimulating production, we will not only be giving business to the home builder and work to the construction trades, but we will also be keeping our promise of a decent home for every American family.

pectfully say to you, Secretary Lynn, should make report on progress made toward achieving that

Now, while the poor are hardest hit by the ump, they are not the only ones affected by licies. Every day my mail and that of other n and Senators contains dozens of letters to us to do something about the mortgage-credit hese letters tell the story of families trans- n one city to another, but unable to sell homes or to buy new ones. They tell of young aving saved the downpayment for a house, but able to obtain a mortgage. They tell of realtor uilders and lumber suppliers and construction o are feeling the effects of the worst reces- t the residential real estate industry in years. The effect on the housing industry of the tight cy adopted by the Federal Reserve Board has more severe than on any other segment of the The Board recognizes this, and Chairman Burns ly suggested that steps be taken to temper the restrictive monetary policy on the housing indus-

to provide below market rate mortgage loans through the Department of Housing and Urban Development. Representatives of the National Association of Homebuilders and the AFL-CIO testified in favor of our bills at hearings held on August 6 and 7.

On Tuesday of this week Senator Cranston and I jointly introduced Senate 3979, the Home Purchase Assistance Act of 1974, which combines, we believe, the best features of both of our bills. The Home Purchase Assistance Act will create a new source of mortgage credit which will be available to home buyers in times of tight money, such as now. It establishes a "Housing Trust Fund" which could draw on the Treasury for loans of up to ten-billion dollars per year. This money would be made available through GNMA, the Government National Mortgage Association, to purchase mortgages on homes with prices ranging up to $30,000 in most areas of the country, and as high as $45,000 in high-cost areas.

rket rate for mortgage money, where it is available

is currently in the range of 9 and 1/2 percent

percent.

Mr. Secretary, I would like to point out to you

my colleagues that this would not necessitate any

subsidy for middle-income housing. I know the

feeling about subsidies, even for low-income

g; and since we have gotten into that, I feel that

s an important step.

The Home Purchase Assistance Act, if enacted,

spur the sale of up to 350,000 more homes over the

welve months. It could provide over 300,000 jobs

nstruction workers. I have urged the President to

t this approach, and Senator Cranston and I shall

r prompt consideration of this measure by the

Committee on Banking, Housing, and Urban Affairs,

ch we both serve. And I hope that Congressman

t, Widnall and others will work on it on the House

rd's efforts to find a cure for this economic disease;
t so far as housing is concerned, I believe that we
st be careful not to kill the patient with the cure.

Mr. Secretary, in conclusion, we all know how ch work you have done on the Housing Bill, which has st been enacted into law, and provides for the ministration's leased housing program, in which you had ch a major role. I have supported that role. I feel ry strongly that it's a strong piece of legislation and at it can work; and I'm sure that under your able adership it will work. In the interim period, however, as know, we've had some disagreement; but until it does ceed, we hope the 235 and 236 programs will continue work, but we need to get money into the housing field. I feel very strongly, as the gentleman said, that this not inflationary. I feel it will be more harmful to economy if we fail to act, and act decisively now.

Thank you.

ve my testimony for my appearances before your

t body and the one represented so ably on my left

ll.

We have come to the point of a break. I have eeling that probably 9/10ths of those feelings sented questions that will be appropriate to address e panel or another on the housing and inflation , which we are going to give two hours and fifteen es to after the break, or to the construction and tion panels that we're going to have right after .

We'll have a fifteen-minute break, and, please, reconvene promptly.

VII

Inflation and the Housing Industry

VII

Inflation and the Housing Industry

Discussion Papers
Housing Producers Panel

Broad, Council of Housing Producers
n M. Martin, Mobile Homes Manufacturers Association
eph F. Sanson, National Apartment Association
is Cenker, National Association of Home Builders
C. Colvin, National Forest Products Association
Hubert Walker, National Lumber & Building Material Dealers Association
liam F. Holmes, National Association of Building Manufacturers
eph W. McCracken, Western Forest Industries Association
n E. St. Lawrence, National Home Improvement Council, Inc.
es Rice, Producers' Council

National Association of Home Builders
National Forest Products Association
nal Lumber and Building Material Dealers Association
National Association of Building Manufacturers
Council of Housing Producers
National Apartment Association
Mobile Homes Manufacturers Association
National Housing Conference
National Home Improvement Council, Inc.
Western Forest Industries Association
Southeastern Lumber Manufacturers Association

The housing sector of our economy is in the grip of a ession. Starts of homes and apartment units are at an l rate of 1.3 million units, the lowest since May 1970, 8 percent below the 2.2 million unit rate in mid-1973. The of jobless in the construction industry is twice that of ational rate of unemployed, and these same hardships t on the mobile home industry.

The basic cause of this depression is the unavailability ntolerable cost of mortgage money. In 1972, when funds available for mortgage loans at acceptable interest , 2.4 million new units were built. In 1973, when money ts were tightening, roughly 2 million units were built. , with effective rates on mortgages at about 10 percent rchasers and up to 17 percent to the builder for ruction loans, the home and apartment industry is ng collapse.

The scarcity and the high cost of mortgage money are irect result of the federal government's almost sole nce on a policy of tight money to quell inflation. tion is every American's fight. The people who build and apartments, those who finance them, and those who de the materials for them, and whose livelihoods

ze the economy, actually are destroying an essential of the economy and, in the name of fighting inflation, ity are helping to fuel it.

early, the home and apartment industry and allied ies are bearing an unfair burden, counterproductive in since its effects lead to shortages and heighten demand.

e tight money policies, as presently implemented, do criminate against other sectors of the economy. They e to obtain funds, at high rates of interest, to meet wn demands. The housing industry, by its nature, compete for this money.

industries which have borne an inequitable burden effort to combat inflation, we are in agreement that lowing recommendations should be acted upon immediately:

Legislation be enacted to exempt from income tax some of the interest earned on savings, thus encouraging in institutions which provide the bulk of mortgage .

The special assistance program of the Federal Home rtgage Corporation be expanded to provide 8 3/4 percent e loans through the Home Loan Bank System. A similar should be established in the Federal National Mortgage tion. A comparable program should be developed for ional apartment projects.

Institution by FNMA of a program of construction vances for single family homes similar to the one it s for FHA multifamily homes.

Reactivation by the Federal Housing Administration operative builder commitment which gives lenders ces of permanent mortgage availability and lessens act of very high interest rates for construction loans.

.. Provide a mortgage tax credit for investors in residential gages without any change in the present treatment of bad reserves of thrift institutions.

.. Legislation encouraging pension funds, as a condition continuing tax exemptions, to invest more of their funds esidential mortgages and mortgage-backed securities.

.. Authority for the Federal Reserve Board to establish able asset reserve requirements for different categories oans by member banks, thereby lowering those on assets sted in mortgages.

.. The government-assisted programs for families of low moderate income, including Sections 235 and 236 as extended authorized in the Housing and Community Development Act 974, should be activated immediately.

The organizations listed above are in agreement on all hese recommendations, except that the National Lumber and ding Material Dealers Association has reservations as to tivating the 235 and 236 programs.

In addition, the National Housing Conference agrees eheartedly with the above statement of the problems facing housing sector of the economy. Without committing itself heir details, NHC also concurs in the general thrust of specific proposals set forth herein as means of providing er access to financing at reasonable rates for both ucers and consumers of housing.

'OMEOWNERSHIP: THE CONSUMER'S ELUSIVE DREAM

Position Statement

Council of Housing Producers

at the

Housing and Construction Conference on Inflation

September 12, 1974

Atlanta, Georgia

Presented By

Eli Broad, Chairman

Kaufman and Broad, Inc.

'EX CORPORATION ☐ KAUFMAN AND BROAD, INC. ☐ KENDALL DEVELOPMENT COMPANY
HE KLINGBEIL COMPANY ☐ THE LARWIN GROUP, INC. ☐ LEISURE TECHNOLOGY CORP.
NNAR CORPORATION ☐ LEVITT AND SONS, INCORPORATED ☐ LEWERS & COOKE, INC.
VILLIAM LYON COMPANY ☐ NATIONAL HOMES CORP. ☐ THE PERL-MACK COMPANIES

TRODUCTION

this conference today there are representatives of government, lustry, labor, finance, low and moderate income families, environ-entalists, and the aged. Since there is no one specifically representing e interests of the median income American housing consumer, I will y a few words on his behalf.

MEOWNERSHIP, AN AMERICAN TRADITION

basic tenet of our democracy and a great American tradition is it our middle class has the ability to own property, which usually eans owning a home. One of the primary reasons our forefathers migrated to this country was because the opportunity for property nership did not exist in other countries, or was a right reserved r only the privileged few in the upper classes. In the United States, arge middle class with property rights has evolved. We are a d of homeowners with an important stake in the free enterprise stem.

ly while inflation has diminished the value of savings
life insurance, and investments in securities and mutual
ne American family also derives significant tax benefits
omeownership, a tax incentive deeply rooted in national
ng back to the 1930's.

NERSHIP BECOMES POLITICAL ISSUE

equence of history, tradition, and rising values, the
people believe very strongly that they have a legitimate
wn their own home. As a corollary, if the American
ins to feel that this right of homeownership is being
or even worse, if they feel threatened that there is a
sing the ability of owning a home, then the political and
sequences will be quite grave. The message is clear:
ncreasing awareness and vociferation of the plight of
nsumers by the public, press and those who will be
ected office. A sample of recent editorial comments
ble with the text of this speech.

NEEDS

is aware of the 1968 Kaiser Commission Study which

sing needs were projected at about 26 million units per year r the decade. Subsequently, a 1973 Study by the Joint Center Urban Studies of the Massachusetts Institute of Technology and vard University has raised the size of the required amount of sing by about 20% over the Kaiser Commission's earlier projections.

JSING GOAL IGNORED

le the national housing goals were well articulated between 1968 1972 by the Secretary of HUD as well as by others both within outside of the Administration, the powerful guiding light of a onal housing polciy has become all but a small candle flicker in last two years or so. While Operation Breakthrough did allow ut 30 states to adopt industrialized building regulations, Operation akthrough evolved into a well publicized experimental breakdown, ecially for those companies participating directly in Government nts as well as for those who formed "modular" housing capabilities. should be remembered that a whole new sub-industry grew up ig with the formation of many new companies all predicated on assembly line revolution in housing production).

h programs was suspended. While a massive "task force" study has been undertaken and completed by HUD, to date s still no well defined, concretely outlined housing program ll the mandates of the 1968 National Housing Act: Provision cent, affordable home for every American family.

NG PRODUCTION SINKING

etting off to a much publicized, charismatic beginning in 1968, lity in America's housing programs has gradually ebbed away. orollary, housing production has retrenched from a high point ost two and one-half million units in 1972, back down to a ally adjusted rate of 1,350,000 in July, 1974, and many ers expect the rate to drop even lower to perhaps one million less.

same time that our national commitment to housing has , and production of new shelter is declining sharply, the homeownership to current and would-be homeowners has ramatically.

n the price of housing, having increased almost 90% from
7 in 1965 to an estimated $13,212 in 1974.

LATING INTEREST RATES IMPEDE HOMEOWNERSHIP

er, it is most crucial to recognize that because mortgage st rates on a typical loan have nearly doubled from 5-1/2% 1/2% between 1965 and 1974, there has been a disproportionate unding effect on the average American family's monthly for principal and interest payments. For example, the ly expenditure for principal and interest on today's $36,000 amounts to $297 at current interest rates, a staggering 190% se over the $102 monthly burden associated with 1965's 00 home. A table attached to this presentation will show comparative increases.

ny strong conviction that it is not the price of housing that is g it increasingly difficult for the average consumer to buy a rather, it is the compounding effect that escalating mortgage

3UYERS UNABLE TO COMPETE FOR CAPITAL

consumers have never been able to compete for capital iarketplace against substantially larger borrowers because costs represent a significantly larger portion of the cost g a home than interest expense represents to a manufacturer ng to finance his business. A doubling of mortgage interest ay result in as much as a 75% or more increase in the home monthly cost, whereas a doubling of borrowing rates to an al corporation may result in a minimal product price increase.

TION'S CHOICES

ices are fairly clear: As a nation, we can allow the economy s course while precluding homeownership for millions of rking, desiring middle American consumers, and put hundreds, even thousands, of home building firms out of business and iployees out of jobs. Or, our nation can re-commit itself :oposition of a decent home for every American family, and

ery other civilized country of the world, government does an active role in providing housing for its citizenry. This vement runs the spectrum from direct participation in housing iction to some form of consumer assistance. Certain experiences ier countries as well as our own under Operation Breakthrough igly suggest that Government should avoid direct involvement in iction at all costs.

facts surrounding housing's current economic situation as well e past trend of housing costs from 1965 to present, indicate the of having Government channeling funds to the American housing imer, as well as taking certain initiatives to ease the inflation en on the homeowner and to help stem the rising costs of ng production.

OMMENDED GOVERNMENT ACTION

ffer the following suggestions as related parts of a broad ral Government housing program:

Authorize GNMA to purchase loans for 250,000 homes

ould be based on an interest rate of 6%. Such a program uld create an estimated 500,000 jobs. The annual cost to : Federal Government would be in the area of $175,000,000 til such time that long term rates decline to 7%. The cost the American taxpayer, therefore, will be far less than y prior housing programs.

calating rate program. This calls for a mortgage carrying ow first year rate, perhaps as low as 5% or 5-1/2%, and n gradually escalates, in small increments, up to a ximum of 8-1/2%, while averaging 7% over the life of loan. The intention here is to match the borrower's lity to pay with ability to earn in future years. Perhaps program could be designed for borrowers under 40 years age who have above average future income prospects.

x break for small savers. During 1975, the first one usand dollars of savings account interest should be tax empt. Small savers have no vehicle for participating in

Contrary to the Hunt Commission recommendations, savings institutions should remain specialists in their role as housing financiers. The present administration should adopt this as policy.

Government policy should promote housing industry efficiency by consciously avoiding any sharp swings in housing output, either up or down. The goal should be to foster smooth housing output within tolerable limits of about 20%. The housing industry cannot improve its productivity if it cannot plan ahead in order to raise equity capital, invest in an organization, purchase land, or retain key management personnel. Efficiencies and, hence, reduced costs to the consumer are unbelievably difficult to achieve or sustain if the industry is asked to gear up to start housing at a rate that is 80% higher than normal in one year, and then forced to contract to 25% - 30% below normal the next year.

It should be evident to most that this yo-yo effect in housing production undoubtedly increases the cost of housing to the consumer, since construction wage demands almost certainly

ieneral support should be given to reforms on real estate ax shelters (except for low and moderate income families), hich benefit no one except the wealthy investor looking for ax relief. Such programs also foster tenancy rather than omeownership. To prevent any further weakening effect n housing production, reforms in this area should be ounter-balanced by adoption of our proposed income tax xemption on interest earned by small savers.

.USION

l, our government should again elevate housing to its ble and long promised place among this nation's list of top ies. Goals should be established similar to those that have et in the energy area, for example, where self-sufficiency gy by 1980 has been targeted. An appropriate beginning ticulated in 1968; it is time now for Congress and the stration to reconfirm such goals with appropriate time les.

rmore, now that President Ford has given Cabinet departments

efine acceptable levels of unemployment and to use available l and monetary powers to fine-tune such levels. Is not the nt" to own a decent home at least as basic as the "right" to ful employment? For its part in the battle against inflation, ebuilders should voluntarily refrain from raising prices in in order to allow family incomes to catch up with rising e prices. Labor should do its part by voluntarily freezing ands for wage increases in 1975.

MARY.

all too clear that the tradition of homeownership must be erved in the face of rampaging inflation and government ny. Government cannot afford to ignore the threat of a ing crisis with its attendant explosive political and social equences, but must actively counter this threat with positive sures if it is to remain a responsive and viable government.

	1974 (September)	1965	% Increase	Aver Annu Incr
Median Price	$36,000	$20,000	80	8
Mortgage @ 90%	32,400	18,000	80	8
Monthly Principal & Interest Payments 30 year mortgage				
@ 5½% Interest	184	102	80	8
@ 10½% Interest	297	165	80	8
@ Current Rates	297	102	191	21
Median Monthly Family Income	1,101	580	90	10
Consumer Price Index (1967 = 100)	151 est.	94.5	79	8

BL 9/10/74

To Buy Own House

As More People Find Goal Unreachable, 'They'll Be Angry,' One Expert Says

Kenneth Jones Keeps Saving

By RONALD G. SHAFER
Staff Reporter of THE WALL STREET JOURNAL

An American dream may be dying.

It is the dream of a detached house in the suburbs, with a big grassy yard and a white picket fence. The house is still there—but fewer and fewer people can afford it.

Since 1970, the national median price for a new single-family house has jumped a whopping 50%, to $35,500. The median price for a used house has jumped 40%, to $32,860. Applying a traditional rule of thumb—which holds that a buyer should not pay more than two and one-half times his annual income for a house—more than half of all U.S. families cannot afford either of these prices.

And things are getting worse. The cost of land, labor and materials is soaring. Some urban areas are deliberately limiting growth, thus artificially limiting the housing supply. In many metropolitan areas, it's already getting very hard to find a detached house under $30,000. More and more home buyers will have to settle for townhouses, condominiums and mobile homes.

"A Luxury for the Affluent"

"The single-family house, to some degree, will become a luxury only for the affluent," predicts Karl Pearson, director of real-estate education at the University of Michigan.

As the implications of all this sink in, a lot of people are going to be very upset, some analysts believe. The most upset of all may be the average-income "middle Americans."

"The whole notion of condos, high-rises and clusters, however well designed, is basically a concept for the upper middle class," says B. Bruce-Biggs, an urban consultant to the Hudson Institute, a think tank. Most people—particularly lower and middle income people—aren't attracted to these forms of housing and still consider a single-family house to be an integral part of the American standard of living. "If they can't achieve this standard of living for their own family, they will be very angry indeed, and will look around for somebody to blame," Mr. Bruce-Biggs says.

To be sure, some current problems afflicting housing, including the scarcity of mortgage money and the high interest rates, eventually should ease. The government is considering a few formulas that could make things easier for homebuyers. A housing bill recently signed by President Ford, for example, lowers minimum downpayments on Federal Housing Administration-insured mortgages while also boosting outdated federal ceilings on FHA loans and most conventional home loans to levels reflecting today's higher prices. And nobody is forecasting the imminent demise of the detached house.

But the share of the single-family house slipped below 50% of all housing starts last year, down from 78% in the early 1960s. Housing-industry economists see that figure dropping to a third of all starts by 1990.

Builders say that because of escalating costs, they simply can't build houses priced under $35,000 near most big cities. Land costs in particular have zoomed—rising 59% in the past five years. That's one reason why condominiums, almost unheard of just three years ago, are expected to account for 15% of all housing starts—more than 240,000 units—this year.

Even more worrisome to housing authorities is the fact that rising prices and rising taxes have begun to erode the real purchasing power of most consumers. "The rapid rise in the price of housing has locked out many potential buyers as the ratio of their incomes to the cost of owning a home has deteriorated," says the U.S. League of Savings Associations. The newsletter U.S. Real Estate Week reports that the number of months of after-tax income needed to buy a new house has been rising since 1972, after dropping every year since 1949.

At the same time, rising prices of such nonhousing items as food are taking bigger bites out of the family budget. As a result, most traditional yardsticks of how much house a family with a given income can afford to buy are no longer valid. Today "a man making $20,000 a year can barely afford to buy a $40,000 house," says Atlanta builder Lewis Cenker, this year's president of the National Association of Home Builders.

Mr. Jones' Dream

If the man with a $20,000 income is encountering difficulties, then the man with a $10,000 income is in real trouble. Such a man is Kenneth L. Jones, who lives in Atlanta and who thought that with a new carpet-cleaning business and some money in the bank, he'd finally be able to buy a house for his family.

"This is one of my dreams," Mr. Jones 34, says. He set out looking for a house priced in the high twenties—only to find that a house that was in that bracket two years ago now sells in the low thirties. He says he "can't find a house under $30,000" that is adequate for his wife and three daughters and also in a safe neighborhood. Mr. Jones will keep saving, but he fears that rising prices may foreclose on his dream.

Hardest hit are young people, who are now entering the market in record numbers. Young couples often have neither the income nor the down payment needed to buy anything better than marginal houses. Many are so shocked to find how little their money can buy that they reel back to an apartment or a condominium.

Jack and Joanne Clark of Dallas, for ex-

Please Turn to Page 13, Column 1

ith a combined income of expectations. After four , they gave up. Houses 0,000 range "weren't any- ome we had hoped for," Monthly payments for ar $50,000 were beyond now, they're staying in

ho already own a house— U.S. families do—are find- eplace their present hous- Homeowners supposedly at insulated from soaring y can often sell their own profit and move to a com- r, one. But with prices roof, the U.S. League of ons notes, there is some r saying that "most of us uy the home in which we

xample, the situation of a ion official who two years se in a Washington, D.C., 0 with $3,700 down. The s appraised at more than ficial says that if he were o almost anywhere except probably couldn't afford use.

It"

profit, he figures, would e than $6,000 by such ex- or's fee and closing costs. ng cash as a down pay- him with a $40,000 mort- payments exceeding $450, of about $100 for utilities. income exceeding $25,000, ford it," he says, adding: (Steadily rising property ping erode many people's a single-family house. In rty taxes are included in ts, and as taxes rise a hly payment goes up.)

re a major reason that eople are turning to con- ouses, duplexes and the e some positive reasons. mber of people, a home house. The surge to con- by young people who pre- pool rather than mow the the mobile home is be- affordable single-family reds of thousands of low- e Americans.

he detached "house of our e dream of most Ameri- . And it's a dream many ntly. "Some young people er how father could afford amily house when they're much as papa did and they ! Mr. Cenker, the home- president, says. "That's ake 'em."

ast— real income, adjusted for inflation, has risen faster than housing costs. Hudson Institute consultant Bruce-Biggs argued last year that most Americans still "are getting better housing at lower real cost than at anytime in our history."

Saving the Dream

And the dream can be saved, some housing officials say, if inflation can be corraled and if a permanent flow of mortgage money is assured. "If we can get the funds with some kind of interest rate consistent with the rest of the economy, the American people will find a way to buy a house," asserts Joseph Doherty, president of the National Association of Realtors.

The laws of supply and demand also could be a factor, some federal economists argue. Consumer resistance to high prices could at least slow the increases, especially given the current glut of unsold new houses. By the 1980s, the bulge of young people entering the housing market should slow, thus reducing the demand. With the trend toward smaller families, one alternative could be smaller single-family homes "without attics and basements," which take up less land and use fewer materials than such houses do now, says Alvin B. Arnold, professor of real estate at New York University.

Another possible answer is to tinker with mortgage formulas—maybe stretching payments over 35 to 40 years instead of the 25 to 30 years commonly offered today. The Federal Home Loan Bank Board is testing mortgages under which payments are lower during the early years of the note and higher later, as a young buyer's earning power increases. The Department of Housing and Urban Development has just commissioned a study to find "new forms of mortgage financing."

A Senate committee recently held hearings on one proposal to create a national housing trust fund. It would be funded by up to $5 billion in loans from the U.S. Treasury and make FHA-insured loans when mortgage money is tight. Other Senators have called for the government to make FHA loans at a subsidized low interest rate of 7%, thus cutting costs for middle-income families.

Housing officials want the Ford administration to resume Nixon-sponsored programs that have subsidized single-family homes for low-income people. But HUD's subsidy programs will emphasize apartments rather than the American dream because, as Housing Secretary James Lynn recently told a congressional committee: "To tell a man who is making $11,000 a year, who is paying taxes, that he hasn't got enough money to buy a home on the general market, but if (he happens) to have a lower income . . . 'Yes, we have a brand new house for you,' isn't the way I want to go about solving the housing problems of lower-income people."

Gets Dimmer

e current housing ustry dilem- —demand for new ing but lack of af- able financing for the buyer and the der—occurs at a when the nation ld be embarking providing housing now-adult post- ld War II babies.

uring this decade, number of men in 30-40 age bracket increase by 4.6 mil- and would normally creating new seholds, let alone family formations ngles of both sexes.

his is the family-for- g, child-rearing, e-seeking age p. It is the group will be hurt most by decline in housing ortunities," Lewis ker, president of the onal Assn. of Home ders, said.

flation and high in- est rates have ught about the ere crunch at cisely the time of the hest housing uirements in the ion's history and ably the highest we ever have in the eseeable future, ven current ulation trends," ker said.

Discrepancy

e expected increase ousehold formations ing this decade, ld be 31% higher during the last de, he added. Yet, he d that the volume of housing starts now most 40% below the t of a year ago.

e gloomy semi-an- l survey of "U.S. sing Markets," by ance Mortgage Co., woe to Cenker's erns, declaring that ousing market is in worst year-to-year ine in 32 years.

hese are the worst of s in the housing in- ry," according to Ir- Rose, president of etroit-based firm.

e have never, since ld War II, seen so a decline in starts one year to the . We have never so sharp an in- se in total housing s in relation to rage personal in- e. We have never so pervasive a star- on of all avenues of sing finance.

"The problem with financing is no longer the rate or the terms or the special conditions. More and more, it is simply not there. An increasing number of savings institutions have simply closed their loan window."

His firm's survey foresees worsening conditions during the third and fourth quarters of the year but none of this reflects a decline in basic demand, only the crisis in housing credit, he added.

"Up to now, this has been largely an intramural crisis. The housing industry has been hit harder than its consumer. Though starts plummeted, the pipeline (of existing units) continued to pour out completed units in near-record volume.

"The consumer was often frustrated by the cost of these units and their financing because total homebuying costs have risen some 3½ times as fast in the past year as average personal income.

"But if he had the price and the down payment and could qualify, his choice was ample. The for-sale inventory had been at a near-record high.

"But now the ingredients of an eventual housing shortage are in sight. Completions are beginning to run about 20-25% less than early this year, reflecting not only the decline in starts since last fall but a stretchout in completion schedules as a result of materials shortages. They will continue to decline each quarter.

"The shortage is already visible in the rental sector. Vacancies in modern units in most markets are the lowest in several years. In several areas that were quite soft only a year or two ago, there may be a real pinch by yearend."

And Charles Dreyer, vice president-director of marketing for the Grant Co. of California, offers this warning to "wait-and-see" buyers: His firm's homes, now priced from $26,995 to $73,000, are bound to cost more than 10% and up to 20% more to reproduce in new developments . . .

- President Ford, after
p economic and housing
ring a variety of "op-
ng housing industry.
ecisions were made" at
hite House spokesman
ouse didn't provide any
ons were discussed or on
be taken. But President
resent housing slump is
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nt economist said that
nge to such dramatic ac-
a portion of the nation's
money-starved housing
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m to pump money into
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cretary of Housing and
and one of those who
Ford, agreed that there
tions available to us"
He cautioned at a press
the meeting that what-
esident decides to take
ushioning effect" on the
market and won't be
going to bring about a
That, he said, can only
y "winning the battle

declined to speculate on
sals President Ford's ad-
he seemed to rule out
credit allocations.

hat one option seriously
is for HUD to extend its
plan to conventional
backed by any govern-
ently the plan, which in-
below-market interest
rates, applies only to loans backed by the Federal Housing Administration or the Veterans Administration. HUD officials say such a change probably would require legislation.

Another option, housing sources said, is for the Treasury to subsidize interest rates on advances made by the Federal Home Loan Bank Board to member S&Ls. The goal would be to make more mortgage money available at rates at or below current market rates for home mortgages.

Both plans would be variations on the $10.3 billion housing-aid package adopted in May. Under that program, the Federal Home Loan Mortgage Corp. has committed itself to buy $3 billion in future mortgages for new houses at the below-market rate of 8¾%, with purchases to be subsidized by the Treasury; HUD expanded an existing Tandem plan to buy FHA-VA mortgages on 100,000 new houses at a subsidized interest rate of 8%, and the Federal Home Loan Bank Board is offering $4 billion in loan advances to S&Ls at an interest rate at least one-half percentage point below the board's own borrowing costs.

The proposed HUD Tandem plan for conventional loans would, in effect, replace the federal home loan mortgage program, which has been completed. HUD would continue the Tandem plan in which it is offering to subsidize FHA-VA loans at a 7¾% rate for up to 200,000 new housing units. So far it has made commitments for only about 135,000 of these, and none of the 100,000 at 8%.

The proposal to subsidize interest rates on advances to S&Ls would be intended to lower the interest rate the S&Ls must pay for the loans. The current advance program hasn't been widely used because the bank board's borrowing costs are so high that a half-point reduction on the rate of advances to S&Ls is too small to allow the S&Ls to

were listed yesterday by Treasury Secretary William Simon as two distressed areas of the economy that may need early government aid. "We're looking at housing," he told a group of newsmen at a breakfast meeting. "Obviously, it is a distressed area. The public utilities are another that will require attention," he added.

Mr. Simon didn't specify what additional actions the government might take to aid housing. As for utilities, he suggested two steps: A larger investment tax credit and more rate increases. The Treasury chief suggested raising the tax credit on utility investment in new equipment to 7% from the present 4%. He noted that the credit is 7% for all other industries. The utilities "need rate relief," he added, but conceded that state regulatory agencies face "political problems" in approving steep rate boosts.

On another subject, the Treasury chief said the government's new wage-price monitoring agency probably will have to develop some form of industry-by-industry standards for wage and price increases. But he said he was against adoption of any specific, overall guidelines, such as the 5.5% guideline for wage increases during Phase 2 of the old controls program.

STREET JOURNAL *Staff Reporter*
...TON—Federal Reserve Board ...rthur Burns declared the U.S. ...em is "entirely sound" but he ...re about the international finan...e.

...anging testimony before the Budget Committee, Mr. Burns ...mors and uncertainty" follow...ose of several big banks abroad ...lems of Franklin National Bank were "greatly exaggerated."

...difficulty," Mr. Burns warned, ...tire countries, rather than just ...g institutions, and derives from ...ing in the international price of ...e past year. Citing "enormous ...n the dollar value of imports ...ng countries and in the flow of ...exporters, the Fed chairman as...he price boost "has released fi...es on a scale that is virtually ...le." This "is the most impor... the world financial system ...mphasized.

...will "come through all right," ...edicted, but he said "what hap...ere also affects us." He added ...he Arab oil embargo was im...ll, he thought the U.S. reacted ...vay—with measures to conserve ...lamented the recent slackening ...ion efforts, as well as the fact ...ct Independence," which aims ...-sufficiency in energy supplies ...been "so far, more rhetoric ...ce."

...Are Urged

...theme of Mr. Burns' appear... the Budget Committee was to ...embers to exercise vigorously ...acquired power to control over...xpenditures. Repeating his past ...at budget restraint is the only ...inflation, Mr. Burns touted the ...ological environment" that he ...e even more important than the ...mic effects of spending reduc...

...," he told the Senators, "that if ...vote a cut of $10 billion today or ...he stock market would revive ...he bond market would revive ...ort-term interest rates would ...promptly without any action by ...Reserve Board and forces ...leased in the private sector to ...jobs."

...out President Ford's statements ...oppose "unwarranted" cuts in ...budget, Mr. Burns said: "I ...we can afford sacred cows; ...ey to be saved everywhere."

...venue side, the Fed chairman ..."no idea" what tax proposals ...ministration might make. Per... Burns said, he would recom...e minor changes in the capital-gains tax to encourage small investors to reenter the equity market." He said he favors letting the rate of tax on capital gains vary inversely with the length of time the asset is held. He also would increase the amount of capital losses taxpayers can deduct from ordinary income to $2,500 or $3,000 a year from the current $1,000 limit. To offset the revenue loss from these measures, he proposed an increase in the minimum income tax to 20% or 25% from the current 10%.

Tentative Moves in House Panel

The House Ways and Means Committee, which is considering a broad package of tax legislation, has tentatively approved changes in these areas. The panel's bill would raise the current 50% capital-gains tax exemption by 1% of the initial cost of an asset for each year it is held, up to a maximum exemption of 75%. Another tentative decision would increase the limit on capital-loss deductions to $3,000. The committee has also tentatively approved changes in the minimum tax on income taxes at preferred rates that would have the effect of increasing this levy on a number of wealthy individuals. All these decisions are subject to reconsideration when the committee returns to them Sept. 11.

Mr. Burns also recommended, as a "constructive" step in combatting inflation, some tax revisions designed to stimulate investment, particularly in the materials-producing industries. He didn't offer any specifics and said he didn't know whether President Ford would recommend an increase in the current 7% investment tax credit. However, he emphasized that any tax reductions should be offset by increases so that total federal revenues wouldn't be diminished.

In addition to fiscal restraint, Mr. Burns listed the following remedies for inflation and the hardships it creates—most of which he has advocated in the past:

—Continuance of a moderately restric...

—Stricter enforcement of antitrust laws and stiffer penalties for violators. Mr. Burns suggested that Congress hold "extensive hearings" to review existing antitrust policy.

—Modification of laws, such as the minimum-wage requirement, that, Mr. Burns said, "interfere with the functioning of markets." He again urged an exception to the minimum wage for teen-agers who, he contended, are being priced out of jobs.

—A public-service jobs program that could be passed by Congress on a contingency basis and triggered by a 6% unemployment rate.

—Some kind of legislation to alleviate the housing industry's shortage of funds due to current record interest rates. Mr. Burns said he "would be surprised if some recommendations from the President aren't forthcoming on this issue."

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To 4-Year Low

Pace Fell 16% From June, 38% From '73; Builders Look to Ford for Help

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—The beleaguered housing industry is looking for a helping hand from the new Ford administration after another sharp drop in housing starts in July.

The pace of housing starts last month hit a four-year low, skidding to 1,335,000 units on a seasonally adjusted annual basis, down 16% from June's 1,590,000 units and 38% from the year-earlier 2,152,000 units, the Commerce Department said. (See chart on page one.) It was the lowest monthly rate since May 1970.

As a result of declining construction and sluggish home sales due to the scarcity of mortgage money, "it isn't any longer a question of production but a question of survival" for many builders, said Michael Sumichrast, chief economist for the National Association of Home Builders. "I don't see how starts can go anywhere but down; we'll be lucky if it doesn't go below a rate of one million," he added.

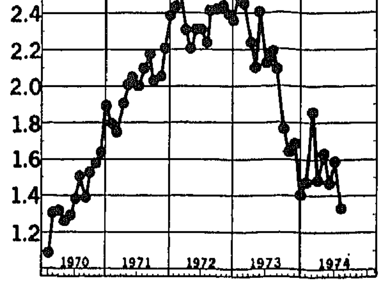
Home builders are hoping that President Ford will order additional government help for their industry. They would like "some selective credit controls" that would allot some credit for housing, Mr. Sumichrast said. Builders complain that they are taking the brunt of the government's policy to fight inflation through high interest rates because the traditional sources of home mortgages can't match the high rates being offered to investors elsewhere.

President Ford has suggested that special relief may be needed for housing. And James Lynn, secretary of the Department of Housing and Urban Development, said Friday that the search for "new but sound ways to ease the current burdens on potential home buyers and on home builders" is "a top priority matter" of the Ford administration.

However, neither the President nor Mr. Lynn has indicated that the administration is considering any specific actions soon. Secretary Lynn termed the July housing-start figures "disheartening" and said they could be reversed mainly by "a successful attack against what President Ford characterizes as domestic enemy No. 1: inflation."

Meanwhile, the Commerce Department's report on building permits, an indicator of future home building, didn't provide any hope of increased starts soon. Permits issued by the 14,000 localities that require them were at an adjusted annual rate of 1,048,000 units in July, down 6% from June's 1,106,000 units and 43% from the year-earlier 1,814,000 units.

Both housing starts and building permits were down from June in all regions of the country.



HOUSING STARTS in July fell to a seasonally adjusted rate of 1,335,000 units from a revised 1,590,000 units in June, the Commerce Department reports. (See story

ME WITH OUTGO — Venus
s with their son James of Granada Hills go over their bills trying to figure how they can buy a house of their own.
Times photo by Kathleen Ballard

Los Angeles Times
VIEW
★ PART IV
THURSDAY, SEPT. 5, 1974

High Interest Rates

BY BETTY LIDDICK
Times Staff Writer

What's this country coming to, Venus and Vincent (Jim) Bacarella wonder, when a guy making $300 a week can't afford to buy a house?

Their savings of $3,000 doesn't meet the 10% down payment required on a house they'd like in the $35,500 range. (Lavish as that may sound, it's the median price of an existing California house, industry sources say.)

Nor with today's record prime interest rate of 10%, and inflation eating away at his income as a painting foreman, could they comfortably make the monthly payment of $363 on the mortgage, taxes and insurance.

Like many young, middle-class American couples today, the Bacarellas of Granada Hills frustratingly find themselves edged out of home ownership.

What's more, with the demand for loans greater than the supply of funds in the tight money squeeze, with the prices of houses jumping 1% to 2% each month, they see little hope of ever having a place of their own.

Financial Feudin', Fussin'

They feel trapped. And the Bacarellas, both 22 and otherwise adoring, admit to taking out some of that tension on each other. Trying to figure out where the money goes the other night—one week after they had moved from a small apartment to a bigger, rented house—they began to sound like quarrelsome contestants on the Newlywed Game.

Jim flipped through stacks of receipts and canceled checks on the coffee table while Venus spooned a jar of baby beef noodles into 6-month-old James Garrett.

She: "What really worries me is that you don't have any insurance."

He: "Don't start on that. You don't know what money is. You spend $55 at a time at the grocery store and, for us, that's a lot of money. I can go and spend less."

She: "You don't know what we're out of. You forget the flour and sugar."

He: "You spend $10 for stupid junk just to wash the floor."

And so it goes.

Sometimes Jim comes home in such a black mood about money, he'll sit in his recliner chair for an hour without saying a word.

Growing Job Insecurity

"Then it's safe to come out without being yelled at," Venus explained good-humoredly. She understands his panic. Jim feels increasing job insecurity as more home owners turn to do-it-yourself paint jobs, he said. "People paint their bedroom; they think they can do their whole house."

He also is discouraged that while a $50-a-week raise last year put him at the top of his nonunion wage scale, it hasn't kept pace with the rising cost of living, much less enabled them to buy a house they'd like.

The Bacarellas were evicted from their two-bedroom, $220-a-month apartment because they had a dog, though Jim insists the manager saw the animal when they moved in.

They chose to rent a house rather than a less-expensive apartment, to allow them greater room for the baby as well as the convenience of their own laundry facilities.

"It was a rat race even to rent this house," Jim added. They snapped up the place at $300 a month the moment they stepped into the living room—while three other couples were poking into other

ks). Here's how his family of three budgets that
ount:

nt	$300
od	236
ilities	40
oline	25
thing	25
dical & dental	100
n laundry	28
vie, dinner out	25
breakfasts out	60
ck payment	76
arets	20
per diapers	20
al	$955
ount remaining	$ 25

ELUSIVE DREAM

ntinued from First Page

...ns at the same time.

They are loath to settle buying a cheaper use—if one could be und in today's rket—believing it might uire costly repairs or fail match the quality of eir current three-droom two-bath rental.

'I'm proud of myself. is is the best we've ed. I know I make rned good money," Jim d, explaining he has rked full time since he s 14 (a result of his other's lengthy hospitali-ion).

Indeed, his monthly ke-home pay of $980 is 26 more than the median Los Angeles County fa-lies, according to the re-arch department of Se-rity Pacific National nk.

But if we're better off n most and we aren't e to buy a house . . ." n's voice trailed off in zzlement. "The only way ee others have made it is at they bought a house ars ago. We're stuck."

The Bacarellas acknowledge they are by no means starving. They have a brick barbecue and tall trees in the backyard where the baby can play and the Irish setter can romp.

Cutting Back

They have blue-green Mediterranean furniture, a $500 stereo, an ersatz Tiffany lamp in the dining area, an Amana Frost Free in the kitchen.

But they also have the feeling that the good life—epitomized by home ownership—eludes them even as they cut back on spending.

In 19 months of marriage they've taken only two three-day vacations, one to Palm Springs, one to Lake Tahoe. Though their food bill has nearly doubled, they've switched from sirloin to tacos. They go to Piece o' Pizza more often than fancy restaurants and see a movie, at a drive-in, only once a month.

Jim is reimbursed for gas and maintenance for his truck, which he uses on the job. The one seemingly extravagant item on the

cidentally, give the baby clothes and toys) and watching TV.

"And Venus smokes," Jim said in a not-so-sly dig.

She does, however, save a bundle making her clothes. She taught herself to sew on a machine her mother gave her. And Jim, who favors casual clothes, buys only four $12 painter's uniforms annually.

High Interest

Last year, the Bacarellas got into "the credit game" but extricated themselves when they realized the high interest rates they were paying through finance companies. "Who ever reads that fine print?" Jim asked.

With the help of Venus' $125-a-week salary as a waitress then and an unusual degree of discipline, they paid off a $3,500 credit debt that included furniture and a '70 Pontiac.

"We stayed at home for seven months and made double and triple payments," she said. "We took every penny and paid everybody off." (Venus would like to return to work but accedes to Jim's wishes to wait till their son enters school.)

Rather than buying on credit now, they'll "make a payment" to themselves and pay cash, often for used appliances. A washer and dryer they've found for $150 will eliminate the cost of coin laundries and paper diapers, they said.

"We've cut down as far as we can," Jim said. "I don't know what the solution to buying a house is." But they'll keep stopping at "For Sale" signs in Simi and Northridge and Granada Hills.

The Bacarellas want the investment as well as the pride of a home. "My uncle bought a house for $12,000 13 years ago," Jim said. "Now it's worth $30,000. He's riding that merry-go-round of inflation. Somehow we've got to jump on it."

SEPTEMBER 9, 1974

COMMENDATION:

1. Provide tax exemptions to lending institutions based on that percentage of all outstanding loans which are used for housing.
2. Allow financial institutions to establish Housing Fund savings programs. Lenders would be required to use the funds for housing and depositors could benefit from a tax free interest with a prescribed maximum such as $1,000.
3. HUD should not have the authority to arbitrarily exclude any segment of housing, such as mobile homes, from programs such as Section 23 Leased Housing.

SCUSSION:

The mobile home industry, like other segments of housing, has suffered eat losses during 1974 as a result of the depressed national economy. nufacturers and dealers have gone out of business, and remaining companies ve been forced to substantially reorganize their operations. While ere are many causes to the overall problem, there are two basic items ich seem to affect our industry the most. In the retail end of the siness, high interest rates discourage dealers from maintaining the oper inventory. The other item is an overly tight credit check attitude.

on and Congress:

lending institutions were given some tax incentive for oviding housing funds, it would encourage broader financial rticipation. Tax exemptions have been provided to other dustries, and there is currently no greater need than oviding housing. Customers are waiting for the opportunity buy, but lending institutions lack incentive to provide equate funds.

ere have been several proposals for establishing a housing ust fund. These suggestions have primarily involved the tablishment of such a fund within the Federal Government. is our Association's feeling that the financial community ould be allowed to establish such funds within their respective nding categories. Such a housing fund could be a passbook ving program with all of the deposit earmarked for housing. positors would receive a tax exemption on a portion of their terest income in that particular program. Limits on both e financial institution and the depositor could prevent other rtions of the lender's portfolio from suffering.

from housing programs such as Section 23 Leased Housing, should not be the prerogative of HUD. If a mobile home or a mobile home community can meet the criteria of a HUD program, then the products of this industry should be allowed.

Another step which HUD should undertake is to review the housing needs of the elderly. This segment of the population is migrating to areas of the country which have more temperate climatic conditions. Many of these senior citizens have made the decision to purchase mobile homes. It is our belief that the Federal Government should expand it's current programs to assist the elderly who cannot afford to make such purchases of mobile homes. In as much as the mobile home industry's average construction cost is less than $9 per square foot (furnished), such housing is the best possible alternative for senior citizens.

ANEOUS RECOMMENDATIONS:

EDERAL SPENDING--The mobile home industry fully supports the stration's efforts to control federal spending, and would support to balance the federal budget. One ill effect of deficit spending housing industry was the recent Multi-Billion dollar offering of y bills at 9 percent interest. This ill-advised offering which le available to small investors (who promptly withdrew their savings

on designed to encourage institutional investors, such as companies, pension funds, etc., to divert a certain percentage funds into the housing mortgage market. These investors already avily in housing; but, as witnessed by the current economic , they are the first to evacuate the mortgage market in tight iods.

TITLE I INTEREST CEILING--The maximum interest rate allowed bile home loans is currently 11.25%. Mobile home manufacturers due to high interest rates at the present time, this maximum 1.25% is too low. Points required on the mortgage backed s program using the FHA mobile home securities require f a large number of points by the manufacturers in order to he program. We feel that an 11.75% to 12% rate would be much istic in the current tight money economy. If this ceiling is , it is felt that many more customers could insure with FHA he mortgage backed securities program for mobile homes.

John M. Martin
President
Mobile Homes Manufacturers Association
P. O. Box 201
14650 Lee Road
Chantilly, Virginia 22021

i-Inflation

Support the President's efforts to reduce spending in FY 1975 and indicate that $10 billion reduction is not unrealistic.

Urge a balanced budget in FY 1976.

llocation of Savings to Thrift Institutions

Increase insurance deposit limit to $50,000.

Authorize 100% insurance of public accounts in banks and thrift institutions.

Tax exemption of pass-book accounts in thrift institutions and banks; limited to deposits in excess of those in deposit on last day of prior taxable year.

Restore the ½% differential for savings and loan associations and savings banks under Regulation Q.

Permit member banks of the Federal Reserve to borrow at the discount window on the security of mortgages at the regular discount rate rather than the penalty rate.

Authorize the Federal Reserve Board to regulate the floating rate issues of bank holding companies.

Increase the Treasury backstop to the Federal Home Loan Bank Board so that the latter may continue to make advances to savings and loan associations at submarket interest rates.

Provide for a minimum denomination of $25,000 for all Treasury short-term notes.

uthorize FNMA to purchase conventionally financed
ortgages on apartments with private mortgage insurance
f the top 25% of such mortgages.
xpand the Federal Home Loan Mortgage Corporation forward
ommitment program to include conventionally financed
ortgages on apartments.

al Taxation

e the cost of rental housing by enactment of Treasury
mended Limitation on Artificial Accounting Losses (LAL).
ould hit at syndicators and other traffickers in tax
ers who are bidding up the cost of land, materials,
, etc. in order to take advantage of tax shelters.

Roadblocks to Rental Housing Ownership Should be Removed

mployees of apartments who must live on premises as
ondition of employment should be exempt from overtime
rovisions of the Fair Labor Standards Act.
JD affirmative marketing plans to insure that tenants
re not tilted toward one ethnic group should be repealed
s adding to costs and denying shelter to low income
lacks in inner city.
ederal encouragement of tenant militancy through Office
f Economic Opportunity and proposed Legal Services
orporation erodes rights of property owners, discourages
nvolvement in rental housing, and encourages conversion
f apartments of condominiums.

means of reducing processing time and by sharing risk with lender insure that projects are economically feasible. This should also help to bring down costs.

5. Reevaluate environmental impact requirements. Remove built in rigidities in the system which increase the cost of apartment planning.
6. Recommend Administration effort to resist proliferation of local rent control laws which discourage investment in rental housing, and hasten conversion of needed rental housing to condominiums.
7. Exempt rehabilitation of multi-family projects from Davis-Bacon Act which requires that union wage scale be paid to all workers.

Enact a Federal Uniform Building Code to reduce costs of housing and apartment construction.

Enact legislation to provide for a credit to renters of that part of the rent attributable to real property taxes. Renters would be considered to have paid real property taxes in an amount equal to 15% of the rent paid.

t grateful to President Gerald R. Ford for affording me, on
lational Apartment Association, an opportunity to participate
nary conference on housing and in the Conference on Inflation,
Vashington on September 27-28, 1974.

housing historically bears a disproportionate burden of monetary
e latter is directed by the Federal Reserve Board against
ressures, it is assumed that the Atlanta Conference will have
ective: (1) to recommend methods whereby the housing and
ectors of the economy could make an effective contribution
on, and (2) to recommend legislative and administrative steps
esult in a reallocation of priorities so that housing and construction
er bear a disproportionate burden of monetary policy during
ationary crises.

A. Anti-inflation

e National Apartment Association pledges its support to the
his efforts to cut-back on spending during the current fiscal year
Association strongly urges that he make every effort to achieve a
et for fiscal year 1976. We do not believe a $10 billion cut in
ng the current fiscal year is unrealistic. The resulting lessened
ssure on the capital market would herald a reduction in interest
dvantages of this on housing and construction would more than make
verse economic affects of such a cut in Federal spending.

pproach to fiscal policy to end the tragic evolvement of a budget that longer be disciplined because so much of it is "uncontrollable".

venty-five percent of the current $305.4 billion budget is uncontrollable he balance $26 billion is allocated to defense.

strongly urge that the President and Congress reevaluate the stances which led to the labeling of so much of the nation's budget as rollable" and bring spending under greater control.

B. Reallocation of savings to thrift institutions.

e adverse affect of the current inflation and spiraling interest rates on and loan associations and mutual savings banks has shaken the foundations mortgage-oriented thrift institutions and brought even their future l into question.

ese institutions provide the largest source of residential mortgage money. ition from the Treasury's recent low denomination high interest rate nd the floating rate issues of bank holding companies and corporations ject to regulatory interest ceiling have resulted in a more than $3 billion flow of savings from these institutions in the past two months.

e attitude of the Treasury Department and the Federal Reserve Board predicament of these institutions and the consequences in terms of less for the American people underscores the apparent conviction in this vel government plan that housing is contra-cyclical -- that it is postponable - ave social consequences of an ill-housed nation is no justification for ing housing or any other sector of the economy from the disciplines of rket place.

ve industry – an increase in one-half of one percent in the
emoves hundreds of thousands of families from the market.
s not inhibited by the thought of paying 12% to build up his
use the inflation which he is helping to sustain will increase the
entory items by 1% per month. For the corporation it is a
rophecy. For the apartment developer it is catastrophe if
me trick because the well is dry – he can't get the rents out
make the venture economically feasible. Rising costs of
d maintenance have taken their toll. There is nothing left.
t savings to thrift institutions we recommend:
ction without delay on legislation which has passed the Senate
differing versions) which would:

(a) Increase the insurance limit on time and savings deposits in savings and loan associations and banks to $50,000; and

(b) To provide for 100% federal insurance of the public accounts in savings and loan associations and banks of local and state public custodians of such funds.

ese measures would result in increased availability of mortgage
ngs and loan associations.
resident should send a special message to the Congress for quick
bill to exempt from Federal taxation the interest earned on time
posits in savings and loan associations, savings banks, and commerical
event a windfall to present holders of large deposits, the exemption

. This would raise the effective rate of return by 20% to 50% without
g the cost of mortgage money.

our considered opinion tax-exempt savings accounts are essential for
rvival of thrift institutions and the housing economy.

The Congress should immediately restore the 1/2% spread (now 1/4%)
Regulation Q which limits the interest paid on deposits in savings
tions and commercial banks. Presently commercial banks may pay
pass book savings accounts; savings and loan associations may pay 5 1/4%.

The Federal Reserve Act should be amended to permit member banks of
serve system to borrow from the Federal Reserve Banks on the security
idential mortgages at the regular discount rate instead of the so-called
y rate. This will make more money available for mortgages in the
ercial banking system.

The Congress should expedite action on pending legislation which would
ize the Federal Reserve Board to regulate the terms and conditions of
issues by bank holding companies and other corporations of so-called
g rate (e.g. 1% over the Treasury 90 day bill rate) small denomination
ties. These issues such as that originally contemplated by Citicorp could
rbate the already deplorable disintermediation plaguing mortgage-oriented
institutions.

To neutralize the adverse affect of net outflows from savings and loan
ations, the Congress should increase by at least $4 billion its backstop for

g a higher level of funds for residential financing.

C. Direct aid to multi-family financing.

% of the nation's families are home owners, economic and social

t toward an increasing percentage of renters in the next decade.

d values, environmental impediments to tearing up the country

f ever extending mass transit systems, and the increasing elderly

int toward an increase in apartment living.

tutional arrangements for residential financing should be modified

ate the growing need for multi-family project financing. The Federal

tgage Association should be authorized to purchase conventional

th private mortgage insurance of at least the top 25% of the mortgage.

on the forward commitment program of the Federal Home Loan

rporation should be extended and expanded to include mortgages on

y financed apartments.

. The Federal tax system as an anti-inflation device in housing.

rnal Revenue Code contributes to the increased cost of land and the

st of labor and materials, and consequently the cost of shelter to

enters.

on is that syndicators and promoters motivated wholly by the

of depreciation and other tax shelter devices are forcing up the costs

her costs in the scramble to take advantage of what too many are

gimmicks". The professional builder-operator of rental housing

e of emulating the tax predator or seeking an alternative outlet for

reciation deductions and the deductibility of interest and taxes during truction period may be offset only against related income (real estate tion and operation).

e the immediate result of enactment of LAL would be to dry up some of apartment financing the long range result will be beneficial to both try and the American renters.

National Apartment Association regrets that in the tentative decision ssue by the House Ways and Means Committee, the Committee appears oward cracking down on the professional builder-operator through the n taxable income device rather than hitting out at the syndicators and the rs in tax shelters (who inspired the drive for real estate tax reform) he enactment of the Treasury - recommended LAL.

l roadblocks and other structural barriers to rental housing ownership erate increased costs and impede the fight against inflation.

Minimum Wage and Hour Law.... Increased rents beyond the capabilities ate income renters is the inevitable result of current Department of actices. These require substantial over time pay for resident managers, endents, or other empioyers who are required to live on the premises as on of their employment. Under such circumstances such employees should pt from the overtime provisions of the Fair Labor Standards Act.

d toward a particular ethnic group. As a result many low income ed housing because of this pre-occupation with ethnic balances nt projects. Here again is an example of how a well intended adds to the cost of housing and results in less housing or higher ended beneficiaries.

Tenant Relations ....Another factor which tends to increase al housing is the growing militancy of tenants and tenant organizations g erosion of the traditional right of the property owner, rights deeply mmon law. Often the organization of these tenant groups are the lunteer efforts of persons (non-tenants) recruited through the xpayer-supported Office of Economic Opportunity. The recently set up Legal Services program with Federal backing could very rce of a new and more sophisticated drive to erode what little al control the earlier pioneers of tenant-militancy have left e defense mechanisms necessarily shaped by owners to counter sion of their rights adds to the cost of rental housing and too often continued involvement of individuals in the rental housing industry. onversions from rentals to condominiums is attributable to a great rosion of the owners rights in managing and maintaining his own

e Administration to assert leadership in countering this trend outing to higher costs of rental housing.

ority for the FHA to experiment with co-insurance whereby the mortgagee

ume part of the risk and much of the FHA's processing responsibilities,

share in the mortgage insurance premium. We regret that the Congress in

g co-insurance felt it necessary to surround the authority with many

ons and limitations. Nevertheless, we urge the FHA to take full advantage

-insurance authority. We are confident that co-insurance will ultimately

ng down the cost of rental housing.

, as a matter of equity to owners of rental housing, the FHA upon

ssion of rental projects should not rent these at less than market rents.

ficial method of reducing rentals for a few is self-defeating because it

he other impediments to the growth of the rental housing industry.

nother frustration which generates conversion to condominiums.

Environment ....During the current anti-inflation campaign we recommend

uation of the many environmental impact requirements which are also

the cost of rental housing. Many of these requirements are only

related to the improvement of air and water but became part of the

vhen the prophets of doom ("This planet will not be able to sustain life

ars.") left their imprint on environmental law and regulation. There are

t major problems in air and water pollution to occupy the attention of

nentalists for a generation without the need for subjecting rental housing

expenditure of time and money on environmental impact studies.

he momentum for condominium conversions.

ontrol....One of the great fallacies of our time is the belief that duces the cost of shelter to the tenants. In fact rent control construction of rental housing and hastens the conversion of condominiums to the detriment of the young, the elderly, and the inner city who need rental accommodations. What does it gain pared a rent increase by rent control if the control results in the ne unit to a condominium?

e Administration to bring its prestige to bear in a national effort liferation of local rent control laws which, by discouraging are adding to the cost of such shelter.

Costs....Probably the greatest roadblock to optimum use of the FHA ance program to rehabilitate our existing multi-family inventory is n Act which requires the owner to pay the union labor scale as the Department of Labor with the advice and consent of the Building No drive to reduce the cost of shelter will succeed without some this unrealistic method of wage determination. We sincerely unique nature of rehabilitation justifies its exemption from the ct and we urge the Administration to seek a change in the law.

eral uniform building code

ess earlier this year took an unprecedented step in directing the nd enforcement of national construction and safety standards for It is time to advance this precedent another step by developing

nistration to lend its efforts to the task of making such a Code a reality

975. Such a Code could prove the most decisive step ever taken by

ent to bring down the cost of shelter.

G. Real Property Tax

elp bring down the cost of rental housing we recommend that renters a tax credit representing the deduction of that part of the rent attributable roperty taxes. This will place the renter on a parity with the home owner ble to deduct such taxes from his taxable income. For this purpose renters considered to have paid real property taxes in an amount equal to 15% nt paid.

s completes the recommendations of the National Apartment Association. commend these views and recommendations to the sympathetic consideration rticipants in the President's Conference on Housing and Construction and resident's Conference on Inflation.

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September 9, 1974

The Department of Housing and Urban Development

Housing and Construction Conference on Inflation
Atlanta, Georgia - September 12, 1974

INFLATION AND HOUSING

The impact of inflation affects the lives and livelihoods of all , from the dinner table to the garage, to how they shall live and y shall live. Inflation's effects are unequal. Its fallout sprinkles some, destructively on others individually, and collectively on some s and their employees.

A social and economic time bomb, product of misguided economic is ticking at the doorstep of the housing industry. As a result of , hundreds of thousands families in all but the upper incomes are purchase or rent housing on terms otherwise normally available to anti-inflation economic policy relying solely on tight money and high rates to control inflation is self-defeating and, in fact, inflationary .

For some time the housing industry has proposed a budget balanced so ablish proper and equitable priorities for domestic needs, the adoption nd equitable fiscal policies in stringent and dangerous times such as more balanced flow in the money markets, firm monitoring of wages and nd selective credit controls so as to balance and provide properly for sities, rather than luxuries, of life. We see none of these as yet.

Housing is a vital and special need of American families, deserving ty preference within government programs and policies and budget ns. The industry is unique, serving the most necessary of human nts. It has special problems in the competition for its lifeblood and, it is conceded by government and private economists alike, in pecial treatment in times such as these so that it will not be destroyed calculable harm to the overall economy and society.

Current monetary policy falls heaviest on the weakest competitors in t, "weak" by the special nature of their needs. Moreover, these policies, e pushed the cost of money to record levels, have now become inflationary lves and counter-productive to their aim of slowing inflation. A mode- ng of money should be an immediate goal to halt the acceleration of ent in the housing industry and the rapid increase in business failures.

More specifically, these issues, the prospects for the residential ion industry, and the recommendations of the housing industry to change of economic disaster are dealt with in the accompanying papers.

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HOUSING SITUATION - PRESENT, PROSPECTS, PROPOSALS

SUMMARY

PRESENT: The housing industry is in the most severe downturn on record. annual rate of starts of 1.3 million units in July was 38% below the million unit rate in July, 1973. Total starts this yeare are forecast to .45 million units, 30% below the 2.1 million in 1973, and 39% under the million in 1972.

rd high interest rates and unavailability of mortgage money are primary sons for the decline. Construction loans generally are tied to the prime plus 4 to 6 points, making a rate of up to 18 percent. Permanent effective on mortgages for buyers, when money is available, is generally about 10%.

iness failures in the construction industry are growing; there were 901 lures with liabilities of $222 million in the first six months of 1974 as pared to 706 failures with liabilities of $134 million in the same period 973. It was the highest dollar amount of failures in any first six month iod of record.

struction unemployment is rising, to 11.1% in August from a low of 7.9% in ruary. Some 500,000 workers are jobless, and this could rise to 1 million he end of the year. Yet wages and materials costs continue to rise. Dur- the early part of 1974, wages were increasing at a 5.2% annual rate; in and June settlements averaged over 9% and demands for over 20% are not now ommon. Construction materials prices rose 16.4% in the 12 months ending in e. Higher increases are projected in the third and fourth quarters.

inventory of unsold new homes reached 439,000 units in June, under the effects high prices, high interest rates, and lack of mortgage money. The number resents a 38 week supply at current sales rates, compared to 32 weeks a r ago.

e financial institutions are issuing calls on outstanding loans to indivi- ls and firms who borrowed for land development and housing, putting such titutions into a business for which they are unsuited and have no expertise. calls could ripple, spreading into other areas of the economy.

SPECTS: The outlook is grim. Building permits have averaged less than million unit rate for the past three months. This would support a rts level of only about 1.3 million units. Thrift institutions have minimal loanable funds; interest rates are under constant pressure and no evidence of any early decline. The annual rate of starts may drop low as 1 million units soon, despite a need and demand in a viable market about 2.1 to 2.3 million units. Construction unemployment will mount, more builders and firms will be going out of business in the absence of ft, positive action to arrest the situation.

s of home-seeking families. It has overstayed its usefulness, and ad to deeper crisis. As an industry which has borne an inequitable n combatting inflation, housing needs special relief and, therefore, the following recommendations:

ded special assistance for the Federal Home Loan Mortgage Corpora- in providing 8-3/4% mortgage loans through the Home Loan Bank m. A similar program should be established in the Federal National age Association (FNMA).

ivation by the Federal Housing Administration of its operative er commitment which gives lenders assurances of permanent mort- availability and lessen the impact of very high rates for con- tion loans.

tution by FNMA of a program of loan advances for construction of e family homes similar to that it operated for FHA multifamily .

lation be enacted specifically authorizing the Federal Reserve to establish variable asset reserve requirements for different ories of loans by commercial banks, thereby lowering those on s invested in mortgages.

lation providing for exemption from income tax the interest earned vings, thus encouraging savings in institutions which provide the of mortgage lending.

lation encouraging pension funds, as a condition for continuing xemptions, to invest more of their funds in residential mortgages ortgage-backed securities.

ederal Reserve Board and Bank Regulatory Agencies use actual and ed powers and persuasion to get more liquidity into construction evelopment loan markets, and to get supervised banks not to call oans in these difficult times.

de a mortgage tax credit for investors in residential mortgages, dition to preserving the present treatment of bad debt reserves rift institutions.

lation, such as the Canadians are proposing, to encourage saving down payment on a new home. This includes deducting from tax- income up to $1,000 per year set aside in special saving accounts could be used for home purchase.

ivation of the government assisted production programs of housing ow and moderate income families as authorized by the Congress

ecommendations are expanded in attached background papers).

EXPANDED SPECIAL ASSISTANCE FOR CONVENTIONAL RESIDENTIAL MORTGAGES

The present program of the FHLMC providing 8 3/4% mortgage loans the Home Loan Bank System should be expanded by the enactment of ion providing additional funds. A similar program should be established A with an authorization of funds at least equal to that available to the program.

The $3 billion program announced in May, with the making of 8 3/4% ge loans through FHLMC, has been extraordinarily successful. All the nder the program were committed within a period of approximately two after the program started. Because of the high demand for these funds portant that future borrowing authority be made available to keep the n going. One way in which this could be accomplished is through the ent of H.R. 11221 now in conference between the House and Senate. The version of this bill provides an additional $2 billion in borrowing authority Home Loan Bank System. Alternatively, separate authorization specifically use of FHLMC could be enacted. Whichever course is most desirable be pursued vigorously.

While the FHLMC program has been highly successful, it is not available to all mortgage lenders since only insured financial institutions l directly with FHLMC. Thus, mortgage bankers, insurance companies er lenders, who normally look to FNMA for a secondary market for ional mortgage loans, have not been able, in many cases, to provide oans. FNMA should have a program, similar to that of FHLMC, for nders it normally deals with. This would enable the extensive facilities A to be made available and relieve some of the present administrative e on FHLMC.

For both the present program of FHLMC, with respect to those ments which have not yet been used, and any future funds that may be vailable through FHLMC and FNMA, there should be established a im mortgage limit high enough to cover most middle-income home ses. The present $35,000 limit applicable to the FHLMC program is inadequate.

should reinstitute use of the operative builder commitment, icularly in this time of tight money. Administrative precaus can be taken to keep a reasonable limit on the number of commitments outstanding, and yet provide the builder and buyer, imes of general unavailability of mortgage credit, with the fits of the program.

commitments would be issued when the FHA field office director atisfied that the builder has the ability to complete construc- and to market the home in a satisfactory manner within a rea- ole amount of time.

program was begun a number of years ago to encourage builders se FHA mortgage insurance. These commitments provided the truction lender the assurance that a permanent mortgage would vailable even if a qualified buyer for the home built under itment was not immediately available.

orked this way: The loan was closed; 85% of the proceeds were ursed to the builder, and 15% was held in escrow. At the time alified buyer was found, the escrow amount was released, and the haser had the benefits of a high ratio loan to value insured FHA gage.

FNMA CONSTRUCTION LOAN ADVANCES

FNMA should institute immediately a program of construction loan s for single-family homes similar to that which it now operates for ıltifamily loans. This new program should be applicable to homes being · both conventional and FHA/VA permanent financing. FNMA has the y to undertake such a program and the experience, under its present nily program, to initiate such a new program quickly.

Funds for construction loans have become increasingly scarce. Even vailable, the interest rate charged home builders frequently is in the 15% to 17%, since such loans are made at the prime rate (presently 12%) ee to five percentage points. This extraordinarily high interest rate is ble for many home builders to afford. When they are able to carry such he cost of the housing they produce is driven up even higher as a result high construction loan costs.

With FNMA participating in construction loans the effective interest such loans should be able to be brought down considerably. It also will ı secondary market source of funds which is just not available today for ction loans. This assured source of construction financing, in conjunc- ı a FNMA take-out for permanent financing, should enable many home ; to start construction of new housing that would otherwise not be built of the present status of the construction loan market. It should also FNMA to acquire some short-range assets more in keeping with its ing amount of short-range debt.

slaɑon should be enacted specifically authorizing the Federal to establish variable asset reserve requirements for different ɔans by commercial banks. The history of this legislation clear that the Fed is expected to use this authority during times such as the present, to encourage the flow of funds into housing.

resent, commercial banks which are members of the Federal n are required to maintain reserves at their Federal Reserve ı certain percentage of their demand deposits and of their time posits. The Federal Reserve Board is also authorized to modify requirements to effectuate monetary policy through encouraging ructure of bank deposits and assets. While this authority could as permitting the establishment of supplementary reserve ıased on classes of assets, specific authority to do so, with e need to encourage the flow of funds into housing during times ;ency, would be much clearer and direct.

;, the Fed would be authorized to establish lower reserve requirements assets invested in housing mortgages. Conversely, it would reserve requirements on those assets representing consumer ns and business loans. This would encourage the shifting of ing loans, even though installment and business loans could earn during periods of tight money. When money availability eased, ɔetween the reserve requirements could be moderated or ıis would help to alleviate the burden of monetary policy on ; is used to control inflation, spreading the burden more evenly ɔnomy.

o encourage the small saver and to enable him to obtain a return commensurate with that of wealthier, sophisticated investors, legislation hould be enacted to exempt from taxation a portion of interest earned, p to $1,000 on savings accounts.

he small saver, backbone of the nation's thrift institutions, generally s unable to take advantage of investment opportunities which have a eady market and a much higher yield than the ordinary savings account. ormally, he is not able either to take advantage of tax-free municipal ond investments.

he type of tax incentive proposed would encourage savers to keep their unds in institutions which invest the great bulk of their assets in ousing mortgages during times of high interest rates on other investents. In normal times, the incentive would spur greater inflows of avings and assist in assuring the availability of funds necessary to eet the nation's housing needs. Proposed legislation has been introuced which would carry forward this purpose, and NAHB supports it.

PENSION FUNDS

Private pension plans began a major growth in the 1940s and
Today more than half of the nation's work force is covered.
sion reserves mounted from $2.4 billion in 1940 to over $14
billion today.

The pension funds benefit from tax exemptions which are con
in a pension bill setting government standards for funding
operation of private plans to protect their beneficiaries w
signed by President Ford on September 2, 1974.

Investment of portions of these funds in residential mortga
particularly safe and secure government insured or guarante
gages, would increase the availability of mortgage money an
the effects of tight economic policies.

It is proposed that legislation be enacted that would encou
such funds to invest in residential mortgages as a conditio
continuing to enjoy tax exemption. It would be particularl
ful to the national economy, the housing industry, and the
funds.

For example, pension funds have made what are considered to
heavy investments in common stocks which have fallen steadi
value. It is reported that a study by the Value Line Inves
Survey found that at the end of 1973 some 375 companies' pe
funds had declined by $10 billion because of falling stock
Stock prices are much lower today. Funds that could have b

FEDERAL RESERVE SUPPORT
FOR RESIDENTIAL CONSTRUCTION LOA

The Federal Reserve System should support, to
possible under present law, residential construction loa
banks to home builders by encouraging the use of its dis
purpose. Legislation should also be enacted to expand t
banks to rediscount notes representing residential const
Federal Reserve Banks, or as collateral for advances fr
Legislation should also be enacted permitting the Federa
make direct loans to home builders for residential const
to purchase such loans from member and nonmember le

One of the principal reasons for the present slow
construction is the present limited availability of constr
then only at extraordinarily high interest rates. This ha
primarily by the action of the Federal Reserve System i
monetary restraint, resulting in shortages of funds for l
high interest rates. Housing is the main victim of these
and it is therefore only appropriate the Fed undertake so
ameliorate these effects.

Under present law, notes representing residentia
with maturities not in excess of nine months from the ti
and a firm take-out commitment are eligible at the Fed
The Fed should affirmatively encourage commercial ban
paper for their borrowings from the Fed. Since many c
are for longer periods then nine months, legislation sho
extend the maturity period to at least three years.

HOUSING ASSISTANCE PROGRAM

ctions 235 homeownership and 236 rental programs, which h
successful in producing housing for low and moderate incom
s, should be reactivated immediately.

nauguration of the 235 program, 60% of families receiving a
ad their subsidies decreased at each recertification and appr
the families have gone off subsidy entirely. Thus, the 235 p
ovided decent housing to hundreds of thousands of families u
e it unaided, but who are upwardly mobile and utlimately cap
ng full responsibility for the cost of their housing. Essentia
program has done the same for renting families, many of w
ally move on to better housing they can afford without assista

Congress authorized these programs, it recognized the risk
shed a separate mortgage insurance fund for Sections 235 an
er high risk activities authorized at the same time. The fu
ected to be actuarially sound and appropriations were autho
p any deficits occurred. Yet six years after the programs
zed, their operations appear to be actuarially sound, and H
dy supports this in respect to the 235 program.

ms have been encountered, largely through poor administra
oved to correct this problem. Congress also recognized th
g Act of 1974, made provision for counseling of families re
nce to be mandatory rather than discretionary, strengthene
nt requirements, and authorized additional assistance for re
ts where tenants and landlords have been caught in the inflat
e. These and other changes should result in sounder assist
ms. It is estimated that there is available and uncommitted

Summary of Statement by
M. Calhoun Colvin
President, National Forest Products Association
for the Housing and Construction Conference
Atlanta, Georgia
September 12, 1974

The forest products industry agrees with Pre
is "domestic enemy No. 1." And we subscribe equ
fiscal restraints must be applied "in a spirit of equ
in all segments of our society."

Clearly, homebuilding and its allied industri
plywood, are bearing an inequitable load, which cr
flation control that is counter-productive since it l
heightens demand.

Housing is in the grip of a depression, the w
Housing starts are an an annual rate of 1.3 million
1970 and 38 percent below the 2.2 million rate in m
level is half of the 2.6 million set by Congress as
the American people need new homes. And it is go

The basic cause is the unavailability and the
money. It is no overstatement to describe the situ
for catastrophe. The Federal Reserve Board's pol
inflation is a cause of scarce and high-cost mortga
to pursue policies which, while designed to stabiliz
destroying an essential sector of the economy and,
flation, in reality are helping to fuel it.

Since World War II, housing has been used b
an economic tool, turned up when the goal was exp

often are lost forever. The capacity to respond to an upsw
with each recession.

s time the downward plunge in homebuilding may have been a
oo long. The American system of homebuilding, unparallel
l be destroyed unless government policies, in respect to hor
rated immediately.

orderly process of building houses is not inflationary, and
n adequate number of houses is as inflationary as a crop fai
re. When the lack of financing is the root cause, as it is tod
ses already built are part and parcel of the problem -- near
on of these were unsold as of the middle of the year.

tight money policies, as presently implemented, do not dis
her sectors of the economy. They are able to obtain funds.
flationary. A housing shortage exerts pressures on rents a
urchasing homes. Excess demand in other sectors of the e
ney is available, creates higher prices in capacity-strained

tinuing to depress housing is destroying the livelihoods of hu
ds of American workers. Construction unemployment rose
nt in February to 11.1 percent in August, and it is still goi
reas, the impact is devastating. A total of more than 460,0
n construction are jobless around the country, and this coul
lion by the end of the year.

iness failures are growing. There were 901 failures in the
vith liabilities of $222 million in the first six months of this
706 failures with liabilities of $134 million in the same perio

eems clear that if inflation is domestic enemy No. 1, as we
s, then unemployment and the well-being of millions of Ame
must be domestic enemy No. 2, at least.

$4 billion, together with a vast new bureaucracy to o
need that. We already have the means and the machi
unique American system of building homes.

With the new Housing Act, the President could
funds for special assistance to housing for families o
where the need is greatest, through FHA programs.
amount and purchase limits, he can expedite the use
which substantial funds were made available earlier

And aside from new powers under the Act, he
toward stemming the widespread issuance of high-ra
securities which cause a vast outflow of saving funds
the wellspring of mortgage money for housing.

The forest products industry, in its statement
Housing and Construction, has proposed a detailed p
summary, it is:

1. Support of the President's fight against i
budgetary, monetary and fiscal restraint
equity to all.

2. Full cooperation with the new Housing A
to make home mortgage money more ava

3. Continued support for legislation and exe
further free up mortgage money, improv
position of thrift institutions through tax
and encourage more sources of mortgage
funds and credit unions.

4. For the long run, support for action by t
that would solve, once and for all, the c
financing and construction of housing.

National Forest Products Association
ısing and Construction Conference
eorgia
12, 1974

I. THE CRISIS

forest products industry agrees with President Ford that inflation ic enemy No. 1," as he declared in his address to Congress. And be equally to his statement in the same speech that fiscal restraints plied "in a spirit of equity to all of our citizens in all segments of ."

rly, homebuilding and its allied industries, such as lumber and re bearing an inequitable load, which creates an impact on inflation t is counter-productive since it leads to shortages and heightens

housing sector of our economy is in the grip of a depression. It g the worst downturn on record. Housing starts are at an annual million, the lowest since May of 1970 and 38 percent below the 2.2 e in mid-1973. The current level is half of the 2.6 million set by s the annual rate at which the American people need new homes. oing down still more.

basic cause is the unavailability and punishing cost of mortgage 1972, when funds were available for mortgage loans at acceptable tes, 2.4 million new houses were built. In 1973, when money mar- ightening, roughly 2 million were built. Today, with the permanent ate on mortgages at about 10 percent generally, when money is homebuilding is in a continuing spiral of collapse. It is no over- o describe the situation as a crisis headed for catastrophe.

Federal Reserve Board's policy of tight money to combat inflation is scarce and high-cost mortgage money. Inflation is every American's people who build homes, finance them and provide the materials for whose livelihoods depend upon them, endorse and support all actions-- etary and budgetary --that work to control the pernicious erosion of the

as an economic tool, turned up when the goal was expansion of the econom
and turned down when a cooling-off seemed indicated. The history of hous
activity is a profile in peaks and valleys, boom or bust, feast or famine in
new home construction. The industry and those allied with it prosper or
suffer, almost at the whim of whichever economic philosophy prevails at
the time. This scapegoat role is not a comfortable one, but those cast in
it have attempted to adjust, straining capacity when demand is high and
scraping by during the lean days, adjusting as much as possible to the
cyclical nature of the business.

The wild swings always create casualties. When companies and
plants go bankrupt at the bottom of the cycle, the management and skilled-
worker expertise often are lost forever. Out of work, the skilled men and
women seek employment elsewhere, not to return. The capacity for home
builders and their suppliers to respond to an upswing is impaired with
each recession. Heretofore, the industries involved have managed to mee
the challenge, working to fulfill the elusive American dream of decent
housing at reasonable cost for all our citizens.

But this time the downward plunge in homebuilding may have been
allowed to go on too long. The nation's priorities are awry, victims of
an almost total reliance on tight money whose impact, grinding and inequit
has fallen far too heavily upon the housing sector of the economy. The Am
system of homebuilding, unparalleled in the world, has made the America
family the best housed of any in any nation in any period of history. This
system will be destroyed unless the government policies, in respect to hor
building, are moderated immediately. When next called upon to produce,
capacity will not be there.

The orderly process of building houses is not inflationary, and not bu
an adequate number of houses is as inflationary as a crop failure in agricu
The underproduction of houses dries up the supply of houses, which feeds i
flation because it creates a shortage. When the lack of financing is the ro

ause, as it is today, even those houses already built are part and parcel of the
roblem -- nearly a half-million of these were unsold as of the middle of the year.

The tight money policies, as presently implemented, do not discriminate gainst other sectors of the economy. They are able to obtain funds, at high ates of interest, to meet the demand of industries already operating at or near apacity. This, too, is inflationary. A housing shortage exerts pressures on ents and the costs of purchasing homes. An estimated 60 percent of the families this country can not now afford to purchase a home, and most of them are in e low or middle income bracket. At the same time, excess demand in other ectors of the economy, where money is available, creates higher prices in apacity-strained industries. Once tight money policies are relaxed and funds or mortgage loans again are available, the pent-up demand for housing will xplode, once more forcing housing prices upwards -- and the feast or famine ycle goes on and on.

Continuing to depress housing goes beyond asking that sector of the economy tighten its belt as its share of the national effort to control inflation. It is more an denying decent homes to the Americans who need and deserve them. Immeately, it is destroying the livelihoods of hundreds of thousands of American orkers. President Ford and the Congress have been advised by qualified exerts that the current 1.3 million rate of housing starts may drop to 1.2 million ortly, with direct unemployment increasing therefrom by 600,000 to a 15 perent level in the construction trades. The ripple effect will be felt throughout e allied industries. That is clearly intolerable.

Already, the proportions are gross. Construction unemployment alone rose from 9 percent in February to 10.6 in July, and it is still going up. In some areas, the npact is devastating -- Philadelphia, for example, where the construction ades are suffering 22 percent unemployment and predictions are that it soon ill be 40 percent. A total of more than 460,000 workers in construction are bless around the country, and this could rise to one million by the end of the ear. Again, these figures are magnified by the ripple effect in allied industries.

Business failures are growing. There were 901 failures in the construction dustry with liabilities of $222 million in the first six months of this year, comred to 706 failures with liabilities of $134 million in the same period of 1973. nce more, the same shock is felt in the other industries that serve homebuilding.

It seems clear that if inflation is domestic enemy No. 1, as we certainly gree it is, then unemployment and the well-being of millions of American orkers must be domestic enemy No. 2, at least. A continued slide in homeuilding will cause further havoc in the construction industry, whose unemployent last month was 11.1 percent -- by far the highest shown in the latest Bureau Labor Statistics data -- compared to 8.5 percent in August 1973.

nployment, funded on the order of $4 billion, together with a vast new aucracy to operate it. We do not need that. We already have the means and nachinery in existence, the unique American system of building homes, and esult would be more even than the jobs our people need, more than a cata- e of make-work projects completed. The result would be the homes, tangible, ding for decades, providing shelter and a focus for American families.

President Ford's signing of the Housing and Community Development Act '74 offers hope to the millions of our citizens who need decent housing and e livelihoods depend upon it. With the new Housing Act, the President l unlock some impounded funds for special assistance to housing for families w and moderate incomes, where the need is greatest, through Federal ing Administration programs. With the Act's new mortgage amount and hase limits, he can expedite the use of the "tandem plan" for which sub- ial funds were made available earlier this year.

And aside from new powers under the Act, he could exercise an influence rd stemming the widespread issuance of high-rate, low-denomination rities which cause a vast outflow of saving funds from thrift institutions, vellspring of mortgage money for housing.

II. HOUSING AND FOREST PRODUCTS

Thirty-five percent of all the wood produced in this country, and half of ne softwood, goes into housing. In some states, like Washington and Oregon, economic life of their citizens depends heavily on forest products, and what ens to housing -- for good or ill -- happens to them. When its survival is atened, so is theirs.

A typical single-family home requires 12,000 board feet of lumber and 0 square feet of plywood. Lumber consumption in the United States set an ime record of 48 billion board feet in 1972, and the building industry used een two-thirds and three-fourths of that total. Yet, despite their importance ousing, lumber and plywood represent about 10 percent of the cost of a house.

The collapse of homebuilding has had a serious impact on the manufacturers mber, plywood and other wood products. Shipments and orders for virtually egments of the industry in recent weeks have been below those of the corres- ing period for 1973, a period which had already felt the dropoff in the ket from the levels of 1972 and early 1973. Mill inventories have shown tantial increases in the past year and prices for most products have dropped ply in the face of rising costs for timber, labor, fuels and other production ssities. (See Tables 1 and 2)

1973 - 74 Weekly Comparisons

Table

Percentage Changes - Weeks
vs. August

	Softwood Lumber	
	Western	Southern
Production	-11%	- 9%
Shipments	- 4%	- 8%
New Orders	-20%	+ 3%
Mill Stocks	+26%	+23%

Table

Typical FOB Mill Prices, do

	8/2/74 %/m	8/3/73 $/m
Random Length 2 x 4 Std & Better		
Douglas Fir, green, Portland	140	164
Hem-Fir, kiln dried, Inland	137	170

Numerous mill closures and production curtail
creases in unemployment, are being reported. Infor
the following:

From H. A. Roberts, executive vice president,
Association:

"In spite of the fire of inflation, the drop
adoption of the tight monetary policy has been d

"We have 177 mills that report to our Ba
mills represent approximately 50% of Coast an
production. Percentages calculated from figur
side of the report show a rather bleak picture:

"Production - 8.5% below same period last yea
"Shipments - 10.1% below same period last yea
"New Orders - 12.1% below same period last y
"Unfilled Orders - 16.5% below same period la
"Lumber Inventory - 12.4% above same period

From W. R. Ganser, executive vice president
Products Association:

"A recent survey of our member mills sh
months period ending July 15, their lumber ord
of 32 percent. Some companies reported decre
70 to 75 percent...

"Approximately one-third of the mills res

information available to the American Plywood
full shutdowns due to the weak market and 21 ot
affecting up to two-thirds of their production."

III. A PROGRAM OF ACTION

The forest products industry supports Presiden
Chairman Arthur Burns of the Federal Reserve Boar
inflation. This includes our general support for budg
restraint. Our support covers a willingness:

(a) to support curtailments by Congress or th
expenditures so as to meet overall budget
of spending priorities to achieve maximum
Federal expenditures,

(b) to support monetary controls as imposed
instrumentalities of Government, with equ
restraints so that housing and mortgage fi
disproportionate share of the burden, and

(c) to promote improved productivity in natur
and other elements of our industry.

The forest products industry supports impleme
the new Housing and Community Development Act of 1
provisions which could help the current mortgage fina
including:

(a) Increase maximum mortgage amounts und
$45,000; general home mortgage limits fo

(e) FNMA and FHLMC are authorized to purch
loans (older than one-year).

(f) The FHA sections 235 and 236 subsidized h
continued for two years but HUD is not mar
for these programs, either those which hav
the new funds which are now authorized.

(g) The mortgage lending authority of Federal
national banks is expanded and made more

(h) A large-scale, new lower-income housing
program is authorized for eligible families
tated or existing dwelling units with the
contracts.

(i) The Rural Housing programs are expanded

Bills or proposals pending before the Congress a
would accomplish the following:

(a) Increase maximum insurance of accounts b
\$20,000 to \$50,000, and provide full insura
deposited in thrift institutions (H. R. 11221

(b) Amend the Federal Reserve Act to permit
to lend to member banks on mortgages at t
(rather than at a penalty rate).

(c) Restore the $\frac{1}{2}$ percent spread (now $\frac{1}{4}$ percen
interest ceilings for savings institutions ab

(a) Bills to exempt from Federal income ta
for a portion of the interest earned annu
savings accounts in institutions where th
in home mortgages.

(b) A proposed special tax credit based on g
residential mortgages to be granted, on
investors in such loans, including thrift
banks as well as other types of lenders.

(c) Legislation to provide the Federal Rese
authority to regulate the terms and cond
at all, the Board will permit bank holdin
Corp) to issue high-interest, small-deno

(d) Proposals -- in state legislatures -- to
law limits on home mortgage loans.

(e) Proposals to eliminate from Federal and
geographical restrictions on mortgage le
institutions (savings banks and savings a
which limit the mobility and flexible use

In May the Government intervened to provide
to the mortgage market by authorizing investment of
additional $3.3 billion of FHA-VA mortgage money a
rate through expansion of the GNMA tandem plan; up
mortgage commitment program for conventional mo
up to $4 billion through below-market rate advances
8.75 percent.

The $4 billion of below-market rate advances to
not yet been fully used. Savings and loans are now rel
funds from their reserve systems. These advances w
existing mortgage loans. An estimated 50,000 new uni
be helped.

Investments in home mortgages are demonstrabl
interest rates, they should be an attractive long-term
efforts could be made to:

(a) Encourage the trustees and directors of pe
growing source of savings in the U.S.), in
tax-exempt status of such funds, to invest
of their assets in residential mortgages.

(b) Persuade private industry pension funds to
assets in residential mortgages.

(c) Encourage a greater investment in residen
insurance companies, commercial banks,
potential mortgage money sources.

Finally, a lasting solution must be found to the c
stabilities of home financing and production. For the
found to moderate drastic fluctuations in the financing
Congress should consider hearings on this search for
market solutions, including recommendations stemmin
mission, among them those proposed in the Financial
before Congress (S. 2591 and H. R. 10990).

The Treasury Department must work more close
Housing and Urban Development, as well as with the F

NATIONAL LUMBER AND BUILDING

THE N L B M D A

The National Lumber and Building Mate
is a federation composed of thirty regiona
retail lumber and building supply Associat
total membership of 12,000 companies, many
yard outlets. These yards provide time, p
in the distribution of the great bulk of l
of other building materials, products and
United States

INFLATION AND HOUSING:
NATIONAL LUMBER & BUILDING MATERIAL DEALE

Introduction

As an integral part of the private enterpr team, retail lumber and building material deale cerned over the alarming and continuing decline and the increasing inability of families to acq The statistical evidence of this is too well kn to require reiteration here.

Unless this erosive trend is halted and at versed, it will clearly result in further infla housing costs for the reasons explained below.

The root-cause of housing's production pro double-digit inflation. We are witnessing reco able money supplies, forcing interest rates to verting savings otherwise available for mortgag

cannot, under present laws and regul
current credit market. While impro
assembling and distributing funds fo
should be made, the <u>emergency natur</u>
requires extraordinary steps by gov

2. The closing of mills and factories p
ducts, the withering of the distribu
widespread bankruptcy of building fi
tors are now beginning.

   a. In the near term this will infla
   manded and received for housing

   b. This will also create unemployme
   demands for costly Federal work

   c. In the long term this will cause
   higher. When a more normal econ
   discontinued production units wi

Proposals

In a sincere effort to be constructive in the retail lumber and building material industr recommendations:

1. Full support should be accorded Presi inflation program, with special empha or postponement of non-essential or n ment expenditures.

2. Continued support for appropriate mon the Federal Reserve Board (recognizin industries, such as housing, counterv taken to prevent such industries from proportion of the burden of tight mon

3. Encourage and cooperate with the Admi of Living Task Force concept but oppo mandatory wage and price controls.

c. Supporting proposals to exempt
taxes the first $1,000 of inte
in savings institutions where
portfolios consist of substant
residential type mortgages.

d. Supporting a special tax credi
in reasonable proportion to lo
residential mortgages.

e. Supporting legislation to prov
Board with power to regulate i
companies (and similar present
of high interest rate, small d
(such as the recent Citicorp n
from savings institutions.

5. Endorsing further Federal secondar
loans similar to the May 1974 GNMA

8. Encouraging state legislatures to amen
currently unrealistic) usury laws whe

9. Developing a program of incentives fo
of pension funds to the mortgage mark

10. Launching an administrative review (o
House) by all government agencies who
tions affect construction and mortgag
eliminate impediments, and (b) to en
flow of credit to construction, espec
The agencies would include the Treasu
Board, Federal Deposit Insurance Corp
HUD-FHA, VA, FNMA, GNMA, FHLMC; speci
should be conducted in this respect w
Board whose policies and activities s
supplies.

The objective of such a review an

lose in the allocation.

Our position calls for allocating on a temporary basis sufficient resources to compensate for the inequities being experienced by the housing industry. This may--and probably will--mean other sectors or programs will have to postpone otherwise desirable objectives and activities. Hopefully, many of these need only be postponed until we emerge from this credit crisis.

Admittedly, as we say, hard choices will have to be made.

NATIONAL LUMBER AND BUILDING NLBMDA MATERIAL DEALERS ASSOCIATION

September 18, 1974

The Honorable James T. Lynn
Secretary of Housing and Urban
Development
HUD Building
451 7th St., S.W.
Washington, D.C. 20410

Dear Mr. Secretary:

This is in the nature of a Supplemental Statement to the one we filed at the September 12 Atlanta Conference.

During the course of the discussion, the record will reveal my suggestion of a method for encouraging an increase in savings flowing to thrift institutions. This is in further explanation of that suggestion.

Problem: The recent rapid and disquieting outflow of funds (disintermediation) from savings and loans and savings banks in search of higher returns than those institutions are allowed to pay--or may be able to pay--is seriously crippling the home building industry's ability to supply needed shelter for our citizens.

There are serious suggestions that, as an anti-inflationary measure, taxes should be increased, thus siphoning off excess purchasing power. Increasing taxes would, of course, not only be unpopular, but would conjure up in the minds of some people the repugnant prospect of such funds being used for government projects of marginal merit. Congressional adoption of this alternative is far from assured.

My proposal seeks, on the one hand, to channel money into institutions serving the mortgage market without direct Federal expenditures and, on the other, to remove excess purchasing power without the trauma of increasing taxes.

The suggestion: Taxpayers, whether individual or corporate, could be permitted to deposit a designated portion of annual earned income in thrift institutions or banks earmarked for investment in mortgages. In return, the taxpayer would be entitled to a tax credit patterned

typical savers to shift from higher interest variable rate notes and other types of high rate obligations. The formula could be so adjusted as to net the saver comparable returns considering both earned dividends and tax savings.

Advantages of this approach:

1. Aside from not requiring the hard decision on an increase in taxes, it would use incentives rather than a restrictive device to curb inflation.

2. Losses of revenue to the Treasury would soon be recouped from the enlarged tax base of increased GNP. Beyond tax revenues from the initial construction activity, the continued use of such properties would provide greater continuing tax revenue.

3. Using this approach would permit its discontinuance or modification at such time as the economy reversed its balance--thus not becoming a permanent savings incentive.

4. This approach would also make monies available quickly to the mortgage market which is in dire need of help to reverse the trend to disintermediation.

To prevent wholesale shifting of existing accounts to new depositories in order to qualify for the tax credit, savers, in making claims for the tax credit, could be required to certify that the sums claimed as savings under such a program were net additions and not transferred accounts. The ease of tracing such funds in event of IRS audit should minimize temptations to falsify the certification.

It should be understood that this proposal is made in my personal capacity rather than as a matter of Association policy, since my group has no specific policy covering this particular item.

Sincerely,

J. Hubert Walker

J. Hubert Walker, President
National Lumber and Building
Material Dealers Association

JHW/bdb

STATEMENT

OF THE

NATIONAL ASSOCIATION OF BUILDING MANUFACTURERS

TO BE PRESENTED

AT THE

HOUSING AND CONSTRUCTION CONFERENCE ON INFLATION

WASHINGTON, D. C.

SEPTEMBER 27-28, 1974

THE U. S. CENSUS OF 1970 SHOWED THAT 42% OF ALL RESIDENTIAL PROPERTIES WERE UNMORTGAGED. SINCE THERE ARE APPROXIMATELY 72 MILLION DWELLING UNITS VALUED AT MORE THAN 1.5 TRILLION DOLLARS IN THE UNITED STATES, TWO THIRDS OF WHICH ARE INDIVIDUALLY OR FAMILY OWNED, IT'S SAFE TO ASSUME THAT THE REAL ESTATE EQUITY OF INDIVIDUALS IS APPROACHING A TRILLION DOLLARS. THIS MORE THAN EXCEEDS ANY COMBINATION OF STOCKS, BONDS AND SAVINGS. TRULY, THERE ARE POWERFUL REASONS FOR AMERICANS TO PROTECT AND EXPAND THE SYSTEM THAT MAKES THIS ACCUMULATION OF WEALTH POSSIBLE, NOT CONSIDERING THE BENEFITS CONNECTED WITH HAVING DECENT PLACES IN WHICH TO LIVE AND REAR FAMILIES.

The manufactured building industry, represented by the National Association of Building Manufacturers, agrees wholeheartedly with President Ford that inflation is "domestic enemy No. 1," as he declared in his address to Congress. And we subscribe equally to his statement in the same speech that fiscal restraints must be applied "in a spirit of equity to all of our citizens and all of our organizations in all segments of our society." Clearly, homebuilding and its allied industries are bearing an inequitable load in the battle with inflation.

Since World War II, housing has been used by the federal government as an economic balance wheel, revved up when the goal was expansion of the economy and idled down when a cooling-off seemed indicated. The history of housing activity is a profile of peaks and valleys, of boom or bust, of feast or famine controlled by the flow of mortgage credit. The industry and those allied with it prosper or suffer, almost at the whim of whichever economic philosophy prevails at the time. This scapegoat role is a difficult one, but those cast in it have attempted to adjust, straining capacity when demand is high and scraping by during the lean days, leaning as much as possible into the cyclical nature of the business.

The wild oscillations always create casualties. When companies and plants go bankrupt at the bottom of the cycle, the management and skilled-worker expertise often are lost forever. Out of work, the skilled men and women seek employment elsewhere, never to return. The ability of homebuilders and their suppliers to respond to an upswing is impaired with each recession. Heretofore, the industries involved have managed to meet the challenge, working to fulfill the elusive American dream of decent housing at reasonable cost for all our citizens.

t this time the downward plunge in homebuilding may have been lowed to go on too long. The nation's priorities are awry, ctims of an almost total reliance on tight money whose impact, inding and inequitable, has fallen far too heavily upon the using sector of the economy. The American system of homebuilding, paralleled in the world, has made the American family the best used of any in any nation in any period of history. This very stem will be destroyed unless government housing policies are derated immediately. Otherwise, when next called upon to produce, e resources for response will not be there.

e orderly process of building houses is not inflationary, and not ilding an adequate number of houses is inflationary. The under- oduction of housing dries up the supply of homes and feeds inflation creating a shortage. When the lack of financing is the root cause, it is today, even those houses already built are part and parcel the problem.

e tight money policies, as presently implemented, do not scriminate against other sectors of the economy. They are able obtain funds, at high rates of interest, to meet the demand of dustries already operating at or near capacity. This, too, is flationary. A housing shortage exerts pressures on rents and the sts of purchasing homes. An estimated 60 percent of the families this country cannot now afford to purchase a home, and most of em are in the low or middle income bracket. At the same time, cess demand in other sectors of the economy, where the money is ailable, creates higher prices in capacity-strained industries.

ntinuing to depress nousing goes beyond asking that sector of the onomy to tighten its belt as its share of the national effort to ntrol inflation. It is more than denying decent homes to the llions of Americans who need and deserve them. Immediately, it destroying the livelihoods of hundreds of thousands of American rkers. President Ford and the Congress have been advised by alified experts that the current 1.3 million rate of housing starts y now be less than 1 million, with direct unemployment increasing erefrom by 600,000 to a 15 percent level in the construction trades. e ripple effect will be felt throughout allied industries.

ready, the proportions are gross. Construction unemployment alone se from 7.9 percent in February to 10.6 percent in July, and it is ill going up. In some areas, the impact is devastating -- iladelphia, for example, where the construction trades are suffering percent unemployment with predictions that it soon will be 40 rcent. A total of more than 460,000 workers in construction are bless around the country. This could rise to one million by the end the year. Again, these figures are magnified by the ripple effect allied industries.

It seems clear that if inflation is domestic enemy No. 1, as we certainly agree it is, then unemployment and the well-being of millions of American workers must be domestic Enemy No. 2. A continued slide in homebuilding will drive the unemployment level to 6 or 7 percent from its current 5.4 percent nationwide. There are proposals to create a federal public works program to counter unemployment, funded on the order of $4 billion, together with a vast new bureaucracy to operate it. We do not need that.

We already have the means and the machinery in existence, the unique American system of building homes. The result would be more even than the jobs our people need, more than a catalogue of make-work projects completed. The result would be the homes, tangible, standing for decades, providing shelter and a focus for countless American families.

The members of National Association of Building Manufacturers commit themselves to a strong attitude of cooperation at each point of encounter with the Federal Government. We would hope that the same attitude and sense of urgency to get things done would be extended to us in return.

C. William Stricker

C. William Stricker
President
NATIONAL ASSOCIATION OF
BUILDING MANUFACTURERS

I. SPECIFIC RECOMMENDATIONS ON THE ROLE OF THE FEDERAL GOVERNMENT AND THE ECONOMY IN GENERAL

To the Administration -

1. The financial affairs of the Federal Government should be managed with careful attention given to long term problems. In addition to emphasis on the budget, the Office of Management and Budget should present annual balance sheets that itemize assets and liabilities. All contingent liabilities, including estimates of future funding requirements for measures like Social Security, Medicare and Government Employee Pensions should be analyzed and reported. The debt should be separated between that portion which is secured and that portion which is unsecured. An orderly program to liquidate unsecured debt should be initiated.

   More attention should be given to the effect of policy changes on the sources and uses of Federal funds. These conferences have highlighted the lack of knowledge about the impact of unemployment on both Federal tax collections and cash demands on the U. S. Treasury.[1] Such attention will provide useful insight into the meaning of tax policies that stimulate private economic endeavor on Federal tax collections. The goal should be to keep a balanced budget even as debt liquidation takes place.

To the Congress -

1. Enact legislation instituting a productivity tax credit for American industries. This kind of policy has a positive impact on Federal tax collections and is creative in stimulating American corporations to become better able to compete in world markets.

2. Repeal withholding taxes on interest and dividends collected from foreign investors in U. S. Securities. This tax has performed to reinforce high long-term interest rates and to destroy the ability of U.S. financial markets to compete in an international environment.

1 See Addendum "A"

A. To the Administration -

1. Support positively the Federal Home Loan Bank Program to implement the pooling and sale of conventional mortgage-backed bonds, designed especially to be attractive investments for pension and retirement funds and for credit unions.

2. Initiate immediately a home purchase mortgage loan commitment program of $5 billion through the Federal National Mortgage Association with support for funding from the Federal Reserve System and the U. S. Treasury. Commitments should be issued at the rate of $500 million per month for 10 months. The interest rates to borrowers should be set at 8¼% for F.H.A. and V.A. loans and at 8¾% for conventional loans. All terms and loan amounts authorized under the Housing and Community Development Act of 1974 should be eligible for purchase, including mortgages closed subsequent to September 1, 1973.

3. Recommit to a Federal Housing Administration, Section 203b mortgage insurance program with a goal to recapture the traditional 15% of the mortgage market held between 1950 and 1968.

4. Institute measures to provide sources for the purchase of money at fixed rates by financial intermediaries serving the construction industry. This would include Mortgage Banking Companies and Real Estate Investment Trusts. Floating interest rate patterns are inappropriate for application in the construction process.

5. Implement the legislation creating the National Institute of Building Sciences as quickly as possible. This body should be supported in such ways that it becomes the resource that resolves code problems that exist between local, state and nationally accepted standards.

6. Because of the unfamiliarity of the Section 23 program, it should be undertaken as a compliment to, and not a replacement for the 235 & 236 programs in attaining the Administration's avowed goal of 400,000 supported units in fiscal 1975. The Executive should immediately direct HUD to use the proven 235 and 236 housing production vehicles by phasing in the Section 23 program as Local Housing Authorities, HUD and private enterprise capabilities are generated.

B. To the Congress -

1. In 1947, the Congress enacted legislation establishing a national policy to assure decent housing for all Americans. This act has proved to be inadequate. It should be reinforced through enactment of new legislation establishing a national policy stabilizing the annual flow of funds into housing construction.

2. Enact legislation encouraging higher levels of personal savings through authorizing an income tax credit for $1,000 per family of interest earned on savings accounts in supervised financial institutions.[1]

3. Enact legislation allowing F.H.A. and V.A. to establish fixed payment variable term mortgages for home purchasers and exempt Federally sponsored mortgages from state usury laws. This will begin moving mortgages into the mainstream of money market interest rates.

[1] See Addendum "A"

C. William Stricker

C. William Stricker
President
NATIONAL ASSOCIATION OF
BUILDING MANUFACTURERS

SAVINGS ACCOUNTS, SUPERVISED INSTITUTIONS

On Operations in the Housing Industry

a n d

On Sources and Uses of Federal Revenues

FUNDAMENTALS

- That if $1,000 per family were allowed as a credit to Federal Income Taxes, the revenue loss to the U. S. Treasury would be $1.8 billion dollars ($2 to $3 billion reported in the N.Y.Times)
- That the result would be an increase of savings deposits of $10 billion dollars during 1975.
- That this would support additional new housing starts of 500,000 annually.
- That this would either develop new jobs or sustain existing jobs totalling 1 million annually. (Estimates range from 500,000+)
- That average income of the jobs sustained would be $16,000.
- That the Federal taxes ror both Social Security and Income would be 20% or an average of $3,200 per worker.

PROJECTED EFFECTS OF ALTERNATIVE ACTIONS

If the action to create the $10 billion dollar pool of funds for investment in housing mortgages is not created:

Burden of U.S. Treasury to support 1 million unemployed @ $9,000	$9.0 billion
Loss Revenue for Social Security and general Federal Government operation: 1 million workers @ $3,200 taxes/worker	$3.2 billion
Total negative cash flow to U.S.Treasury	$12.2 billion

CONCLUSION

Failure to enact legislation to provide funds that would support 500,000 housing starts through a tax credit for interest earned on savings accounts would have the net effect of increasing the cash demands on the U.S. Treasury of 10.4 billion dollars. ($12.2 billion Less $1.8 billion)

In other words, the U. S. Treasury would have to finance 10.4 billion dollars more to pay obligations that create no new wealth. This would take place during a time when the demand for housing is at an all time high and when production is approaching the lowest rate since World War II.

REVISED DRAFT
September 16, 1974

or the National Home Improvement Council

xecutive Summary

he Remodeling Industry Situation - Present Prospects - Proposals

The remodeling industry wholeheartedly supports the recommendations or strengthening the new construction industry. However, our industry ould be remiss if it did not point out that because of the foresight of n American President (and Administration) less than 20 years ago, there xists now another segment of the light construction industry with an nnual volume in excess of 20 billion dollars. This volume is not ependent upon the availability of traditional mortgage money, initial apital requirements, or lead time for training personnel.

The remodeling industry has available programs, skills and human esources to embark upon an immediate plan to stimulate construction ctivity.

resent Prospects:

All segments of the residential construction industry are adversely ffected by spiraling inflation, less profitablity, material shortages, nd high interest rates.

The remodeling industry, in spite of the current economic condition, s functioning at its highest level ever. It has fullfilled the objectives et for it by the Eisenhower Administration when that Administration ought a viable second channel of distribution for industry goods and ervices at a time of economic downturn and greatly lowered production f housing.

roposals:

The National Home Improvement Council supports suggestions and ecommendations leading to a revitalization of the new home building ndustry. However, it offers itself as an important vehicle at this ime in mitigating the hardships the residential building industry is xperiencing. Our industry can offer employment to craftsmen and ake use of materials and products while preventing the deterioration f existing homes and neighborhoods.

The National Home Improvement Council feels that there was never better opportunity to encourage home improvement as an important tep to softening the current housing crisis. We are ready now to promote Better Living through Home Improvement" and to marshall the industry n support of these activities. We urge the government to provide the ollowing non-inflationary support:

owners to remodel.

3. *To provide a secondary market for home improvement loans through the existing FHA structure to assure an adequate financing pool.*

4. *To revise punitive OSHA practices in favor of corrective consultations carrying no penalties, and to review other Federal regulations that may inhibit productivity.*

The National Home Improvement Council does not recommend full price and wage controls. Nor do we ask for any government subsidy or support beyond a sensible fiscal policy. The Council believes in a free market to achieve a balance of supply and demand.

The National Home Improvement Council does, however, recommend that the administration make a sincere effort to balance the budget in fiscal 1976 as its first short term objective. We urge the administration and Congress to review all domestic and offshore programs with the intention to eliminate all but the most needed for international trade and national security. The Council will support honest cuts in federal, state and local government spending.

The National Home Improvement Council deeply appreciates this opportunity to join in this conference. We wish to express our thanks to Secretary Lynn and his associates who make this conference possible. The Council is prepared to do it's part in the fight against inflation and respectfully submits the above non-inflationary proposals.

John E. St. Lawrence, President
National Home Improvement Council

The National Home Improvement Council, Inc. is the broad based industry association composed of contractors, manufacturers, publications, lending organizations and others involved in the remodeling industry.

NATIONAL HOUSING REHABILITATION ASSOCIATION
Meeting on Housing and Construction
September 12, 1974
Atlanta, Georgia

ational Housing Rehabilitation Association, a non profit trade association e major producers and operators of rehabilitated, restored and recycled ng share the concern of all participants about curing or arresting the tion affecting the national economy.

at connection we urge consideration of the following points which are tly relevant both to arresting inflation and the increased production of ng to help alleviate the crushing housing shortage.

litation, restoration and preservation of housing affects potential ng stock in and around major cities. In that regard it:

Is less expensive than comparable new housing and reuses substantial quantities of materials which are in short supply and/or escalating in cost.

Corrects the present inadequate and wasteful heating systems thus conserving oil and other fuels while reducing air pollution.

Helps to stem the alarming rate of abandonment.

Improves the municipal tax base.

Does not create ecological and environmental problems.

Avoids large concentration of low income housing.

Encounters neighborhood support rather than opposition.

e that this combination of affirmative factors with a corresponding ation of negatives is a viable avenue for housing production which has less on inflation than any other available. This argument should not be con- as treating new construction negatively, but rather as relevant only to culiar advantages of rehabilitation.

mbers' experience with rehabilitation, restoration and preservation of g amply demonstrates that the Davis-Bacon Act often constitutes the only tion for the high wage rates they are compelled to pay. The failure to guish between new high-rise construction and the upgrading of buildings ailure only of the Department of Labor. The construction trade unions onsistently indicated their willingness and desire to negotiate lower for the type of work done by our members, but in those instances where vis-Bacon Act applies, the lower rates have been unavailable. Thus, e that a major cause of inflation, having nothing to do with the market factors, has been the imposition of artificially high wage rates solely esult of the application of the Davis-Bacon Act. Finally, we support entirety the eight point program put forth jointly by the NAHB hers.

Respectfully submitted,
NATIONAL HOUSING REHABILITATION ASSOCIATION

By: ______________________
A. Carleton Dukess, President

VII

Inflation and the Housing Industry

Presentation and Discussion Housing Producers Panel

CHAIRMAN:

Ladies and gentlemen, may we reconvene, please. I think, and as you all know, we are now at the point where we are going to zero in on the situation with respect to the housing industry--the issues, where we are and suggested solutions, short term and long term, to the present housing situation. I might say that I have read all the papers that have been presented through 4:00 yesterday afternoon, some 50 of them, and I found them very, very useful. And I said as we were approaching the conference that I felt there might be some new ideas, to change nuances, with the old ones. Indeed, I found some of those, too. We think the best way to proceed with this portion is to convene a series or panels, people staying in place for this purpose, however, to save time; and I would like to say at the outset that I am not going to put any time or restriction on a particular speaker, but the maximum amount of time for each panel is one-half hour, of which a maximum of 20 minutes shall be given to the formal presentations. I would like for that to be, frankly, 15 minutes, if you can do it that way, because I really do believe that the give and take of the question period during the half an hour with each panel can be extremely productive and very useful to all of us. So remember at the end of 20 minutes with each of these

worked out within your groups will take hold and be effective

LEWIS CENKER, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

THE CHAIRMAN:

Having said that, I would like to have Lewis Cenker, the President of the National Association of Homebuilders, give us his statement.

MR. CENKER:

Mr. Chairman --

THE CHAIRMAN:

It would be well if you always announce the station that you're at before you even give your name.

MR. CENKER:

We're not alive on 19.

Mr. Chairman, as you pointed out this segment of the meeting is panelized, which is a term not unheard of in home building. There are a number of associations in the panel. They have filed a joint statement that's available.I'm sure, by now to all the delegates; and I urge everyone to read it.

The associations which joined in that statement are the National Association of Homebuilders, the National Forest Products Association, the National Lumber and Building Materials Association, the National Association of Building Manufacturers, Council of Housing Producers,

the National Apartment Association, the Mobile Home Manufacturers Association, the National Housing Conference, the National Home Improvement Council, Incorporated, the Western Forest Industries Association, and the Southeastern Lumber Manufacturers Association.

Mr. Chairman, the housing industry is in the most severe down-turn on record. The annual rate of starts in July was 38 percent below the rate in July of 1973. The total starts this year will be 30 percent below 1973 and 39 percent under 1972. Record high interest rates are nearly twice the ten-year-ago level. Construction loans or prime-related rates are up to 17 percent. Permanent effective rates on mortgages for borrowers, when money is available, are generally about 10 percent. Business failures in the construction industry are growing Construction unemployment is rising. 500,000 workers are jobless, and this could rise to near a million workers by the end of the year. The outlook is grim. Building permits have averaged less than 1.1 million units for the past three months, and that rate is terribly low.

Thrift institutions have available only minimal loaning funds. Interest rates are under constant pressure and give no evidence of early decline. The annual rate of starts may drop as low as one million units soon, despite a need and a demand in a viable market for twice

swift, positive action to arrest the situation. The impact of inflation affects the lives and livelihoods of all Americans from the dinner table to the garage, to how they can live and where they can live. A social and economic time bomb, a product of misguided economic policies, is ticking at the doorstep of the housing industry.

As a result of inflation, hundreds of thousands of families in all but the upper incomes are unable to purchase or rent housing on terms otherwise normally available to them. Anti-inflation economic policy relying wholly on tight money and high interest rates to control inflation is self defeating and, in fact, inflationary in itself. The current monetary policy falls heaviest on the weakest competitors in the market--weak by the special nature of their needs. Moreover, these policies have now become inflationary of themselves and counter-productive to their aim of slowing inflation. A moderate easing of money is necessary for the economy as a whole.

When the members of the summit meeting were interviewed, the Washington Star reported on August 27 that where hardships were severe and the President could

settle on a course of action, the action would not be held up pending completion of the meetings and the conferences. Mr. Siedman indicated that housing may be one hardship area for early action. This bespeaks an awareness that gradually is being pursued, and the nation's present economic policy did not make allowance for harsh inequities being imposed now not only in the private-homebuilding industry, but on the countless numbers of families seeking a decent place to live. These inequities must be removed. If the reports cited are to be believed, a plan for the removal of the inequities should be available now.

We are fearful that before the present policies of gradualism have run their course, the uniquely American private-homebuilding industry will be destroyed. This system was created out of the chaos of the 30's, and it has served our nation well--making the American family the best housed of any in the world; but it can be destroyed under the stresses of the 70's.

The liquidity crisis with respect to housing and real estate loans is taking shape as a collapse of land-development lending, construction lending, and inventory lending. More than 60 percent of the families in the country cannot now afford to purchase a home; consequently, the private-homebuilding industry faces high-interest costs in carrying its large inventory, flowing from record

production years, even though it has correspondingly decreased production. At today's rates it is not unusual for builders to have to pay 3, 4, or even 5 percent above prime lending rates for construction funds or to maintain inventory. Commercial banks, lending to real estate investment trusts, the mortgage bankers, or directly to builders, are deeply involved in the crisis taking shape. The banks may be involved, I believe, to the tune of 20 or 25 billions of dollars. The commercial banking system cannot afford all the real estate it is about to own.

[Laughter and applause]

MR. CENKER:

The Federal Reserve System must take immediate steps to participate in or purchase from or discount our member and nonmember institutions' sound loans, which will otherwise fail. The Federal Reserve System encourages recasting such loans at a rate of 10 percent interest and an extention period of 36 or more months to allow the orderly workout time for completion and marketing. To do otherwise is to encourage an economic waste ill becoming the public interest.

The housing industry has been hurting longer and hurting more than any other sector of the economy. The effects are spreading elsewhere. Lumber mills are closing and workers are being laid off. Major lay-offs

have begun in the glass, appliance, and air conditioning industries. Now, it should be understood we are willing to share equally, but the policies being pursued to combat inflation are basically discriminatory to housing. The housing industry needs relief if it is to survive. Our requests for special assistance for a recognized special industry, serving special human needs, and now bearing special burdens. This industry was able to provide good housing opportunities for most of our people when interest rates were reasonable. It cannot with today's high rates.

Our proposals are aimed at providing lower mortgage rates, liberal construction-loan rates available to start new housing. We have filed and distributed to all the delegates a program of short-term and longer-term solutions. The nine associations on this panel have jointly called for these: Legislative action to exempt from income tax some portion of the interest earned on savings. Action to provide a mortgage tax credit for investors in residential mortgages. Action to encourage pension funds to invest more of their assets in mortgage backed securities. Action to provide the Federal Reserve Board with the authority to establish variable asset reserve requirements for different categories of loans with a view toward lowering those on mortgage portfolios. Administratively, the Special Assistance Program of the

be established in the Federal National Mortgage Association. The Federal Housing Administration should reactivate its operative builder commitment to assure lenders that permanent mortgages are available and lessen the very high interest rates on construction loans.

The Federal Reserve and other bank regulatory agencies should use their powers and persuasion to provide the liquidity in the troubled construction and development area of lending and get banks to refrain from recalling these loans in a difficult time. Lastly, all but one of these associations -- or perhaps, two on this point -- were agreed that the programs for assisted housing, as re-authorized in the new action in 1974, should be activiated immediately. I believe the National Marketing Association had some reservations about the use of sections 235 and 236. I might say at this point that with Senator Brooke's report on the bill that the National Association of Homebuilders testified in favor of both the Brooke and Cranston Bills, which are now merged. I would like to say now that we support that, with the observation that it only serves a part of the market -- a necessary part of the market --

but we would like to see something going up into another level of the market place. $30,000 is below the medium price of houses in this country --

MR. BROOKE:

May I suggest $45,000 as the ceiling? I just want to correct it. That $30,000 is the figure for some areas, but $45,000 is in high-cost areas.

MR. CENKER:

Thank you very much, Senator. I believe that if that's left to the discretion of the Secretary, that he would be aware of those places where 30 thousand would not be sufficient. That's excellent.

Additionally, the National Association of Home builders urges prompt consideration of our use of the Canadian plan to encourage savings for home ownership. The plan provides for exclusion from taxable income of up to $1000 per year with a lifetime limit of $10,000 that's set aside in special savings accounts to be used for home buying.

All of these proposals, the joint and the separate, were fully discussed in the background papers which we filed as part of the NAHB presentation furnished to the Congress.

Finally, Mr. Chairman, every responsible voice in our economy has said that inflation is our number one

must be offset by a tax increase for the rest of us. Prudence in spending may not alone balance the budget, which must be done. Alternatively, an approach to compulsory savings or prepaid income taxes by those able to do so is very much in order. These are ideas for personal tax programs. Let me caution against depriving real estate of its present tax incentives. These are as necessary to housing as productivity incentives are to industry. In our supplemental paper, which we are privileged to file following this meeting, we will expand our views on this question. Time would not permit an in-depth treatment here this morning. Despite the characterization of inflation as an enemy, influential voices, including President Ford, also have said that sectors such as housing require and should be given special assistance. Their reasoning and our proposals are in harmony.

We hope your meeting here and your report later to the end-of-the-month summit meeting will produce the quick action the nation needs for equity for this sector of the economy.

Now, Mr. Secretary, the homebuilders have been advised from time to time to be patient. Now, from the

right now.

Thank you for this honor.

[Applause]

M. C. COLVIN, PRESIDENT, NATIONAL FOREST PRODUCTS ASSOCIATION

THE CHAIRMAN:

Mr. Colvin, you are left in the position of having about three minutes, I think. Mr. Colvin is president of the National Forest Products Association.

MR. COLVIN:

Thank you, Mr. Secretary. I would like to endorse the sentiments of my colleague, Lou Cenker, regarding this joint statement of the housing producing organizations; and I urge each of you here to study this document closely.

I am M. C. Colvin of Holly Hills, South Carolina and I'm here as President of the National Forest Products Association. We are a federation of some 30 associations throughout the country, and we represent the tree-growing and harvesting and lumber and plywood industry, with 5 percent of all the wood produced in the United States and half of all the soft wood that goes into housing.

The collapse of homebuilding has had a serious impact on the manufacturers of lumber, plywood, and other wood products and on the livelihoods of those who depend

we subscribe equally to his statement that fiscal restraints must be applied in a spirit of equity to all of our citizens in all segments of our society.

Really, homebuilding and its allied industries, such as lumber and plywood, are bearing an inequitable load which creates an impact on inflation control that is counter-productive since it leads to shortages and heightens demand. Housing is in the grips of a depression. It is the worst down-turn on record. The basic cause, of course, is the unavailability and the rising costs of mortgage money. It is no overstatement to describe this situation as a crisis headed for catastrophe. The Federal Reserve Board's policy of tight money to combat inflation is a cause of scarce and high-cost mortgage money. It is dangerous to pursue policies which, while designed to stabilize the economy, actually are destroying an essential sector of the economy; and in the name of fighting inflation in reality are helping to fuel it.

Since World War II housing has been used by the federal government as an economic tool--turned up when the goal was expansion of economy and turned down when cooling off seemed indicated. The history of housing activity is

a closed file of peaks and valleys, lean or fat, feast or famine in new-home construction. And I have a chart I would like to show you that describes this very graphically. The wild swings always create casualties. The management and skilled-worker expertise often are lost forever. This time the downward plunge in home-building may have been allowed to go on too long.

The American system of homebuilding, unparalleled in the world, will be destroyed unless government policies in respect to homebuilding are moderated immediately. The orderly process of building homes is not inflationary; and not building an adequate number of houses is as inflationary as a crop failure in agriculture. The tight money policies as presently implemented do not discriminate against other sectors of the economy. They are able to obtain funds. This, too, is inflationary. A housing shortage exerts pressures on rents and the cost of purchasing homes. Excess demand in other sectors of the economy where money is available creates higher prices in capacity-strained industries.

Continuing to depress housing is destroying the livelihoods of hundreds of thousands of American workers, and I think statistics have already been presented that prove this this morning. It seems clear that if inflation is domestic enemy number one, as we certainly

agree that it is, then unemployment and the well being of the millions of American workers must certainly be domestic enemy number two.

In the lumber and plywood industry shipments and orders for virtually all sales in recent weeks have been below those of the corresponding period for 1973, a period which has already felt the drop-off in the market from the level of 1972 and early 1973. Now, this chart shows the vast difference in prices in this short period of time. Just two examples, one, southern pine two-by-fours, our basic ingredient for housing, has dropped from a peak of $204 in September, 1973, to $118 a few days ago. And half-inch CDX plywood and other basic ingredients for housing fell from $190 on February 9, 1973 to $124 on September 6, 1974. Numerous mill closures and production curtailment, with resulting increases in unemployment are being--

MR. LYNN:

You have less than a minute, Mr. Colvin.

data on this to the conference, and much more is available. The forest products industry in its statement to the Congress has proposed a detailed program of action.

In summary, support of the President's plans against inflation; two, full cooperation with the new Housing Act; three, continued support for legislation and executive action that will further free up mortgage money; four, for the long run, support for action by the President and the Congress that would solve once and for all the fiscal nature of the financing and construction of housing.

I would like to make one more point, Mr. Secretary, if you will permit me. Raw material with which we work in our industry is renewable. Unlike minerals and metals, the forest renews itself, and, if properly managed, will

the national needs for housing without harm to the environment. We know how to do this, and we are doing it on our industry timberlands, and it can and must be done on public and non-industrial timberland. Misguided and misleading attacks by the preservationists coalition in the courts and in the news media not only delay the day when we can completely meet the national needs but also drive up the cost of lumber and plywood, paper and the 5,000 other wood products and complicate our struggle with inflation.

Thank you very much, Mr. Secretary.

THE CHAIRMAN:

Thank you, Mr. Colvin.

HOUSING PRODUCERS PANEL: DISCUSSION

THE CHAIRMAN:

I'm going to ask a question, I think, of about every panel because it is this question that is constantly put to me by economists who have to look at the overall picture. You can correct me if I'm wrong, Dr. Greenspan, but as I understand it the principal reason why you wish to have some budget expenditure reduction this year is not that it dampens that much aggregate demand for goods and services across the country in the trillion-plus economy, but that it is because it would ease the pressure on the money market through federal borrowing. I would like to address a question to any member of the panel. Do you think you reach a point in the size of any of these programs that are presented where it does have a substantial effect of overheating an already overheated money market to be going into that market with more mortgages or mortgage-backed securities or treasury bonds or the like? And the other side of that question is, if you do believe this is a real possibility, are you suggesting by making these

what we should look for, then, in DOD and elsewhere are commensurate or partial reductions in other expenditures?

Would anyone like to comment on this? It's a question I'm asked constantly when I come forward with my programs to help this industry.

MR. BROAD:

Well, if no one else is willing to, I'll try. In the material prepared by the Council of Economic Advisers, which I read last evening, it indicated that approximately $1 billion per month was flowing away from those institutions that provide mortgage funds. The answer to your question, Mr. Secretary, as I see it is where did the money go? It went into inventory buildup and speculation and for other inflationary purposes.

So, if we reverse that process I think we have the answer to your question.

THE CHAIRMAN:

How would you reverse it, by credit allocation or--

MR. BROAD:

By credit allocation and/or control and other simpler matters.

THE CHAIRMAN:

Dr. Greenspan, do you have any response to that at all? I'm sure you do; the question is whether you want to make it or not.

DR. GREENSPAN:

I think it is very easy to over-simplify a very complex problem. Anyone who would like to attempt to allocate credit is going to find very quickly that the number of people who meet the requirements for credit by demonstrating their unquestionable right to that credit is going to end up with a total of about 115 percent of what is available.

There are only two ways to allocate credit. You allow the market to do it, or somebody does it. Either way there is 50 percent or a third of the people are going to find out that they got nothing, which is not going to make them terribly happy, or a hundred percent of the people who get something will feel that it will be an inadequate amount.

My concern here--and I think the Secretary is expressing what generally the economist's concern is--is that when you are specifying and looking at the fact that the balance sheets balance, and take from one side, you have to take from another side and that it's very simple in general terms, and everyone is in favor of keeping the budget down, but remember that it really

is incumbent upon all of us in a responsible way to recognize when we think in terms of programs we may be trying to increase, it is very important to recognize that this is displacing somebody else's problem. I think that one must be very much aware of the fact that the Office of Management and Budget seemingly, I guess, feels like the airline reservation agent who is badly overbooked for a flight and is going to have to confront an awful lot of people who are going to show up with tickets.

THE CHAIRMAN:

Or, as one budget officer put it to me once, the art of budget making is the spreading of dissatisfaction more or less uniformly throughout the departments and agencies of the government.

Mr. Morris, I believe you had a question.

MR. MORRIS:

Yes. I am William Morris, Housing Director of the National Association for the Advancement of Colored People. I wanted to address one question to the members of the housing finance panel or, perhaps also to the housing producers, and that is concerning the proposed credit allocation plans. I know that there are written statements, certain endorsements of some kind of a program to allocate credit to stimulate or to even up the flow of funds in housing. I would like to get

basis of the various economic groups within the society so that low and moderate income persons would not be left out and would be given a fair share of any funds to such a program.

THE CHAIRMAN:

Is there a member of the panel that will tackle that one?

MR. CENKER:

I would like to say that there is nothing new about allocation of credit in our economy. We managed to develop regulations to direct credit in one area or another when we needed to in the early 50's, and I don't understand the disclaimer by people in government that they don't want to decide, but that may be their responsibility. That may be one of the burdens of office. If Congress decides it should be done, the administrators are going to have to use their best efforts to find those sectors which have priority for credit. And it's obvious that a catalog of essentials against a catalog of nonessentials would be one criteria by which you would begin to allocate credit; some short-term, some long-term, and in a final sense it's an onerous, necessary task sometimes. And the time may be here.

MR. WHYEL:

My name is George Whyel. I am President Elect of the American Bankers Association.

I think the crux of the problem that you refer to here this morning, number one, is certainly not the allocation of credit. The allocation of credit systematically causes long-run problems in other parts of the economy. What we really want to do is to redirect the flow of money where they can have the money to take care of these problems in housing and in other projects. And I would like to call your attention to the fact that there are many, many more savers in this country than there are borrowers, and up to this point the small saver has been subsidizing the borrower. And what we really need has been said here this morning by several, and that is an incentive for the small saver to save rather than spend so that the financial intermediaries may have the money to take care of these problems. And if they have the money and plenty of that, that's going to take care of the industry.

THE CHAIRMAN:

Thank you. Congressman Barrett has a comment, and then Senator Biden and then we will move on to the next panel.

MR. BARRETT:

Mr. Secretary, we have been sitting here, now, for these few hours discussing all points relative to the inflation, interest rates, the possibility of getting money, of which we have none, and the first individual who came here this morning spoke as to how we could get some money for the low and moderate income housing people. He indicated that he was formulating a bill with another senator, and I want the senator to know that we will cooperate one hundred percent with that bill or any bill that's offered to get money.

Mr. Secretary, we have been looking over this money problem for the purpose of getting mortgage money for the low and moderate income families for several years. I think we should begin to talk to the Chairman of the Federal Reserve Board because what the banks are requested to put up now has been increased to about 17 percent of their reserve.

Mr. Secretary, this reserve is idle money. They get no interest on it. They must have it. And we are desirous of setting up a fund in which they could put this 17 percent and use it for mortgage money for the low and moderate income families and other users if it is necessary. We think that by taking this reserve fund, we can even work out a plan that would give the

this some time ago, and I'm of the opinion that the Federal Reserve would knock the stilts from under it because we feel that we can give low interest rate mortgages to the low income families. We can reach the number of units that was indicated here this morning by Ms. Dolbeare. They need a million units now for the low and moderate income housing, and we are of the opinion that if we can get the encouragement to go through to the banks, we can add our efforts to Ed Brooke's bill and fight to get money where it would have no effect on the taxpayers whatsoever. The money is idle; we could put it into use. We could give what we are told would be 65,000 jobs for every million dollars we spend in housing construction and other construction. By the use of this money in this manner we would be able to cut down the unemployment rolls in America and get the economy moving in the direction where everybody at the lower and top levels of this country would be happy that we are moving ahead back toward a reasonable level of inflation.

And, Mr. Secretary, I hope we can sit down and talk further about this and use this non-active money.

Senator Biden has a question.

MR. BIDEN:

Mr. Secretary, you are in a tough spot. How do you shut up a congressman or a senator when you've got to come before our committees? I really do have a question for Mr. Cenker. I want to make sure I understand the basics here, and I'm not sure I do. I think it's just another way of asking the question the Secretary asked only in a less educated manner so that I can understand it. And that is, first of all, I understand, Mr. Cenker, you say, like everyone else does, you want a balanced budget, which means reduced federal expenditures. Is that correct?

MR. CENKER:

Either reduced federal expenditures or new revenue or a mixture of the two.

MR. BIDEN:

Secondly, as I understand you, you have given us at least a nine-point program in your paper here. How much will that cost the federal government in dollars?

jobs, a lot of people have been laid off in the construction industry, and if you take some of these points and retain those jobs in the construction industry, it's hard to calculate; I'll put it this way. It's hard to put numbers on. But we've been invited to supplement papers. You've asked the question, and we will follow them in the supplement.

MR. BIDEN:

I also would like to ask how much borrowing will be required to put your programs into effect? I know it's hard to put numbers on this. In the final analysis the voter comes back to us, the administration or Mr. Greenspan or the Secretary and says, "What are the numbers, fellows?" And what worries me about this conference so far and everyone I was talking to is that, as my good friend from the Ironworkers said, we are all for motherhood and apple pie. I'm getting tired of hearing about balancing the budget. Everybody wants to balance the budget and cut expenditures as long as

you "give me more money." And I'm wondering how you do that.

MR. CENKER:

Senator, it may be that if you need to reduce the budget--and I may make this observation since Dr. Greenspan referred to a balance sheet--I have never found a federal government balance sheet. And, as I say, a direct loan which puts on the books a mortgage on the property value and somehow, maybe not accurately, but close to it, to offset one another so that in the balance sheet area we can't deal with these problems in that concept. But on the flow of funds space, if you're going to cut $10 billion out of the expenditure side and you really cannot find more than five, then you simply have to vote taxation which will add the other five if balancing is the goal. And, of course, most of us here say we'll help.

MR. BIDEN:

Well, I'll look forward to those dollars and how we're going to do it. How much is the loss of revenue, for example, in the tax exemption on savings -- will it cost the government in lost revenues? And even I--

MR. CENKER:

The Treasury- --excuse me for interrupting--the

savings at various levels and varying principal amounts, and I had the sheet here--it may be a little obsolete, now, but we can get that for you. We will see that your office gets it.

THE CHAIRMAN:

I think we can also get into that issue with the next panel on housing finance.

MR. BROOKE:

Mr. Chairman, just one half minute if I may. I know everybody wants to cut, "But don't cut us," but I think that we have already made our case for housing. I think we have been neglected too long, but I think that it will just be a question of priorities. We will have to decide where. I trust that in your report to the Summit that the record will clearly show that the case has been strongly made for housing, and I think this is what we will have to do. I think the mood of the economists is to cut. It has already been evidenced. I think you've seen it.

The question here that we are trying to bring forth to the nation is that housing is merely in a depressed state and I think that it deserves priority treatment. I think that should come out of this conference.

VII

Inflation and the Housing Industry

Discussion Papers
Housing Finance Panel

William E. Ezzell, Mortgage Bankers Association
George Whyel, American Bankers Association
Lloyd Bowles, U. S. League of Savings Associations
Kenneth L. Birchby, National Association of Mutual Savings Banks
Dempsey J. Travis, United Mortgage Bankers of America
Gilbert G. Roessner, National Savings and Loan League
Max H. Karl, Mortgage Insurance Companies of America
Oakley Hunter, Federal National Mortgage Association
Walter S. Tucker, National Bankers Association
Joseph B. Doherty, National Association of Realtors
Daniel W. Spaulding, National Association of Real Estate Brokers

Statement by the

Mortgage Bankers Association of America
Washington, D.C.

Before the

Housing and Construction Conference on Inflation
Atlanta, Georgia
September 12, 1974

Executive Summary

The Problem and the Cure

Persistent deficits in the federal budget, financed by increases in Federal Reserve Bank credit are the prime movers behind today's inflation.

The prevailing inflation is deeply rooted in government policies predicated on the belief that recessions can be avoided and recoveries initiated only by increased federal expenditures and easy money. Over a period of thirty years, these policies have produced an accumulated residue of federal programs; programs, we are told, that permit only negligible cuts to be made in a $300-billion budget. This is an admission that the federal budget is out of control; a situation that must be reversed by positive action.

The principal cure must be (1) a reduction in federal expenditures, a tax increase, or a combination that produces a surplus in the federal budget and (2) a degree of monetary restraint that no longer validates federal deficits and inflationary expectations.

These endeavors must be strong enough to produce convincing evidence of the government's will to bring an end to inflation. They cannot be undercut by monetizing the mistakes of private business and financial institutions or world-wide needs for energy resources.

This process will require sacrifice by many, as the rate of growth must be slowed down and unemployment increased. To do nothing now only invites greater economic troubles and sacrifices in the future.

After the Cure--What Should Be Done?

Once the effort to reverse the inflation begins to produce results, it is essential that government is prepared with recovery programs other than the traditional open purse and easy monetary policy. If these policies are reopened, early or late in the war against "Public Enemy Number 1," the battle won will be a war lost. We will return rapidly to the same but worsened predicament.

If we accept the theory born in the years following the depression of the Thirties that only government can close the unemployment gap and generate recovery, we must also accept the permanence of inflation and still more governmental control and regulation of our lives.

This theory need not and must not be accepted. If the effort to fight inflation slows the economy, as it must, the resulting gap can be closed by expansion of the private sector without increased government expenditures and without renewing the forces of inflation. The list of private investment requirements waiting in the wings is now so large that many forecasters are predicting long-run shortages in available capital. These forecasts, as well as past government policies, miss the point at issue, that is, that private business can close the unemployment gap, but it can do so only when government moves over and gives private business room to borrow, purchase, and hire the resources needed.

During the Cure--What About Housing?

The necessity of ending inflation and the processes that keep it alive are clear enough. The sorry state of the housing industry is another matter. It is the victim of inflation, the scapegoat of restraint, and the prime example of the effects of governmental intervention. For these reasons as well as its contribution to the economy, a number of interim actions should be taken, actions that do not add to the drain on the Treasury.

1. Banking supervisory agencies should demand a curtailment in extensions of bank credit in areas that are not productive.

2. Borrowing by the Treasury and federal agencies should be designed to avoid further drains on savings deposits at thrift institutions.

3. Security issues by private firms or institutions, that have the attributes of deposits, should be delayed until the legislation on financial institutions is completed.

4. Federal exemptions for FHA and VA mortgages from state usury statutes, on a temporary and emergency basis that does not disrupt the established secondary market, should be seriously considered.

5. The Federal Housing Administration should be reconstituted as an independent federal agency charged with insuring actuarially sound mortgages and with effective performance.

6. The programs in the Housing and Community Development Act of 1974 should be implemented as promptly as possible. The GNMA tandem program should be adjusted to encourage its use.

7. The overhang of incompleted and completed, but unsold housing is a serious roadblock to a recovery in homebuilding in many areas.

Terminating inflation will resolve this problem, but until that is accomplished an interim program is needed. Otherwise, resources already in place, building organizations already in business, and houses already completed may be lost or salvaged only at great cost. Certainly, unemployment will rise further.

8. Permit thrift institutions to pay depositors interest rates on savings that are comparable with the current mortgage rates. Depositors withdrawing before the mortgages are paid off would be paid a premium or charged a discount depending upon the then prevailing interest rate.

9. Programs designed to assist homebuilding should include existing housing. About 3 existing units are sold for each new unit sold. With billions of dollars being returned to the cities for community development, it is a contradiction to exclude their existing housing stock and rehabilitation loans from federal aid programs.

Statement by the

Mortgage Bankers Association of America
Washington, D. C.

before the

Housing and Construction Conference on Inflation
Atlanta, Georgia

September 12, 1974

he Problem

ersistent deficits in the federal budget, financed by increases in Federal eserve Bank credit, are the prime movers of today's inflation.

wo forces have driven the roots of inflation deeply into the economic fabric. irst, government economic policies since 1946 have been predicated on the otion that recessions can be avoided and recoveries initiated only by increasing federal expenditures and expanding the supply of money and credit. s a result, each decline in economic activity has generated new federal pending programs and an expansive monetary policy. Spending programs have een created to stimulate recovery and to reduce the personal misery of reession as an excuse to assure their enactment; some have created distortions hat called for still more federal expenditures; few have been abandoned when he recession ended.

In this way, each business cycle left a residue of demands on the federal ourse, a residue that accumulated over time to the point where we are now told that only a small part of a $300-billion budget is subject to reduction.

This is an admission that the federal budget is out of control; a condition that must be reversed by positive actions.

Second, a decade of massive deficit financing has spread the sickness through the economy; inflation has bred its own progeny. Inflation generates expectations that are self-validating and entices business and government into making corrective adjustments that are self-defeating. It grows stronger each time an appropriate action is judged to be politically unacceptable and discarded. It feeds upon itself and leaves a trail of distorted markets and institutions in its wake.

The Cure

The principal remedy must include (1) a reduction in federal expenditures, a tax increase, or a combination that produces a surplus in the federal budget and (2) a degree of monetary restraint that no longer validates federal deficits and inflationary expectations. This process must recognize the impact of off-budget financing on the economy and on credit markets.

The remedies prescribed must be strong enough to produce convincing evidence of the government's will to bring an end to inflation.

Application of this prescription should be steady and unrelenting. Nevertheless, we have given inflation a run-of-the-show contract and we cannot, therefore, summarily order its termination, not without severely jarring the economic and social fabric of the nation. Instead, we will have to retract the steps that brought us to double-digit inflation.

We should begin with a reduction in federal expenditures. If this cannot produce a significant surplus, it should be accompanied by a tax increase. The latter might be ameliorated by casting the increase in the form of forced savings to be returned to the taxpayer when inflation is beaten.

Remedies prescribed to supplement fiscal and monetary policies and to ease the adjustment to a less profligate government, e.g., public service employment, should target in on individual problems and take into account second and third round effects of alternative solutions. Programs that generalize and have no discretionary authority or flexibility usually "throw money at the problem." As a result, help is provided for those who do not need it in order to help those that do, systems are created that deal with generalizations instead of individual problems. Federal programs should pinpoint problems and design solutions that recognize the exceptions as well as the rule. This would not be as terrifying an administrative prospect if the Federal government were also moving out of the business of running everyone's business.

Interim programs should also avoid sudden starts and stops, attention-getting innovations, and revival of defunct policies. Then, perhaps, the public's expectations will change, the inflation premium in the structure of interest rates will decrease, and cost-of-living protection found in leases, labor and other contracts will become unnecessary.

The final step in the curative process requires a firmness of resolve. Reasonable stability must be maintained and no encouragement given to those who continue to expect a resurgence of inflation. The die-hards will maintain that inflation is a permanent feature of this economy until their expectations are proven wrong in the market place and confidence is restored in government and in ourselves.

This step-by-step remedial process will require sacrifice by many, as the rate of growth must be slowed and unemployment increased. To do nothing now would meanfully waste the sacrifices already made by those attending this conference. To do nothing now only invites greater economic troubles and greater sacrifices in the future.

After the Cure

It is essential to establish immediately the policy objectives and programs that will be followed when the back of the inflation is broken. If we rush in with more federal expenditures and an expansionary monetary policy the moment the going gets rough, we will set the inflation process in motion once again, build on the accumulated residue of past programs, and make the process of inflation more painful and more difficult to reverse than ever.

If we accept the theory born in the year's following the depression of the Thirties that only government can close the unemployment gap and generate recovery, we must also accept the permanence of inflation and still more governmental control and regulation of our lives.

This theory need not and must not be accepted. If the effort to fight inflation slows the economy, as it must, the resulting gap can be closed by expansion of the private sector, without increased government expenditures and without renewing the forces of inflation.

The list of private investment requirements waiting in the wings is now so large that many forecasters are predicting long-run shortages in available capital. These forecasts, as well as past government policies, miss the point at issue; that is, private business can close the unemployment gap, but it can do so only when government moves over and gives private business room to borrow, to purchase, and to hire the resources needed.

Government is not helping the economy today, it is in the way. It has become so large an economic force that its decisions to borrow money, to buy beef, or to raise salaries of its employees have a material impact on the private sector of the economy. Its borrowing contributes to the high level of interest rates and deters private investment. Its programs use massive amounts of materials and labor, driving costs above expected returns and deterring private investment.

Numerous government regulations and laws impose costly requirements and establish impossible barriers to private investment. Government restricts the private sector, then claims that the private sector has failed to perform and moves in with new federal programs.

This vicious circle can be broken. Government can remove the arbitrary restrictions it has established in pricing, interest rates, added costs of doing business, and rigidities that preclude adjustment to changing economic conditions. It can reduce the drain of large federal expenditure programs on the private sector. Above all, it can remove the fear of capricious governmental actions by consciously pursuing policies that make private markets work effectively and that restore confidence in the market system.

If this circle is broken, we need not return to inflation to generate the next business recovery. The demand for expanded capacity of public utilities and industrial plants, the demand for more productive machinery, the need for housing, transportation facilities, building and rebuilding cities--all of these requirements provide adequate assurance that the private sector can fill the unemployment gap. At the same time, it will produce products that are needed and that will be áviailable in the market place. It is a far better solution than idle workers or leaf raking projects. The only incentive private business needs is the removal of governmental impediments and governmental competition.

During the Cure--What About Housing?

The necessity of ending inflation and the processes that keep it alive are clear enough. The sorry state of the housing industry is another matter. It is the victim of inflation, the scapegoat of restraint, and the prime example of the effects of governmental intervention. For these reasons as well as its contribution to the economy, a number of interim actions should be taken; actions that do not add to the drain on the Treasury.

1. Interest Rates. Without the support of fiscal policy, monetary restraint will not alter the prevailing pattern of expectations. Accordingly, interest rates will remain high and the yield curve will remain distorted. Current levels of short-term interest rates are particularly troublesome, because the cost of borrowing for construction purposes and for warehousing mortgages far exceeds the return on long-term mortgage investments.

Short-term interest rates can and should be moderated, even as fiscal restraints are being initiated. Three actions would be helpful.

a. Banking supervisory agencies should demand curtailment of non-productive extensions of bank credit. Even a marginal reduction would have a marked impact on interest costs.

b. Borrowing by the Treasury and federal agencies should be designed to avoid further drains on savings deposits at thrift institutions.

c. Security issues of private firms and institutions that take on the attributes of deposits should be forbidden until the legislation on restructuring the financial institutions is completed.

2. Emergency Relief from Usury Statutes. State usury statutes that preclude lending to home buyers at competitive interest rates are already causing serious disruptions in an increasing number of states. Statutory authority to provide the federal government with the power to override these state laws has already been suggested by other quarters. Such authority would be proper and beneficial if it were temporary and only if it does not disrupt the established secondary market for mortgages by failing to provide for adjustments for risk and geographic differences.

3. Revitalize FHA. The Federal Housing Administration should be reconstructed as an independent federal agency insuring actuarially sound mortgages and charged with effective performance. To this end, legislative action should be taken immediately.

FHA's viability is closely related to the ability of the Federal National Mortgage Association and the Government National Mortgage Association to perform their respective functions effectively. This fact is particularly relevant with respect to the GNMA mortgage-backed security.

Current market conditions should put to rest the delusion that the FHA mortgage can be replaced by conventional financing with no loss to the home buyer or the home building industry.

4. Make Existing Programs Work. Programs authorized by the Housing and Community Development Act of 1974 should be implemented as promptly as possible. The GNMA tandem program should be adjusted to facilitate its use.

. Construction Loans. The overhang of incompleted and completed, but unsold housing is a serious roadblock to a recovery in homebuilding in many reas. At the same time, inflation, materials shortages, labor costs, and arrying costs have made it impossible for many builders to complete their rojects.

tability that would follow the termination of inflation would resolve these roblems, but until that is accomplished an interim program is needed. Otherwise, physical resources and building organizations already in place, and ouses already completed may be lost or salvaged only at great cost. Certainly, nemployment will rise further.

hatever program is devised it should minimize the use of additional Treasury unds and should not stimulate new construction of housing in overbuilt areas.

. Encourage Savings. The proposal to provide for a tax exemption for a stated amount of interest income from savings deposits should be given serious consideration. At the same time, consideration should be given to the roposed mortgage tax credit where all investors in residential mortgages ould receive a tax benefit. The objective should be to make home buyers competitive with corporate and government borrowers.

Permit thrift institutions to pay interest rates to depositors that are compatible with the current mortgage interest rates. Such deposits would be matched with specific mortgages. Depositors withdrawing before the mortgages are paid off would be paid a premium or charged a discount depending upon the then prevailing interest rate level.

This procedure would permit thrift institutions to compete for savings without having to raise the rate paid to all savers. The depositors under this program would receive a higher yield and accept a greater risk.

7. Existing Housing. Programs designed to assist home building are self-defeating when existing housing is summarily excluded. About three existing units are sold for each new unit, often providing the wherewithal to purchase the new units.

With billions of dollars being returned to the cities for community development, it is a contradiction in policy to exclude their existing housing stock and rehabilitation loans from federal housing programs.

8. Standby Taxing Authority. Once again the necessity for increasing federal income taxes may be upon us before the Congress can act. Accordingly, standby authority should be granted to the President to increase or decrease tax rates with appropriate limits on the amount of the change and guides based on the extent and direction of the prevailing price inflation.

# # #

September 12, 1974

Executive Summary

STATEMENT OF GEORGE L. WHYEL
PRESIDENT-ELECT, THE AMERICAN BANKERS ASSOCIATION
AND VICE CHAIRMAN OF THE BOARD, GENESEE MERCHANTS
BANK & TRUST CO., FLINT, MICHIGAN

HOUSING AND INFLATION

Inflation is unquestionably our major domestic problem today. As the inflationary spiral has developed, it has also forced interest rates to levels which are without precedent in our recent history. This, combined with rigidities in our current institutional arrangements for channeling funds into housing, has resulted in an unacceptable slowdown in meeting America's housing requirements.

Unfortunately, the challenge of meeting our housing needs is also being frustrated by rapid increases in the prices of homes and in operating expenses. These include utility bills, tax payments and insurance charges. In fact, a careful analysis of all of these housing costs indicates that rising interest costs are not the main sources of pressure in the typical family's housing budget.

In view of the fact that other social priority demands on our limited resources may not permit us to achieve the ambitious goal of providing 2.6 million housing units per year, it is imperative that this goal be reviewed with an eye to developing priorities among our various types of housing aspirations.

To relieve both the immediate and longer-term impediments to meeting our housing needs, we suggest three major specific action programs: (1) Near-term aid aimed at the immediate problems of housing; (2) financial reform to increase the ability of America's lenders to channel funds into housing, even during periods of inflation; and (3) economic policy revisions designed to curtail inflation.

Near-Term Aids to Housing

* Government is already pumping additional funds into housing, but we must take care not to divert too much money from private capital markets.

* We must strongly encourage states to liberalize usury statutes to make more funds available for housing. Also, VA and FHA mortgage rate ceilings should be repealed as impediments to the mortgage markets.

* The mortgage loan limit under the FHLMC 8.75 percent commitment program should be increased to at least $55,000.

* To encourage more consumer savings, interest earned on personal savings accounts and time deposits -- up to a limit of perhaps $1,000 -- should be made exempt from Federal income taxes.

* Variable rate mortgages designed to allow rates on outstanding mortgages to rise and fall with the general level of interest rates would encourage banks and other lenders to make more mortgage loans.

* Standardization of conventional mortgages would ease the effective operation of secondary conventional mortgage markets.

* The FHA should be adequately staffed and funded to cut red tape and delay.

* Building practices, including outmoded building codes and union regulations, must be updated to permit full use of new home building technologies.

* Mobile home production should be encouraged to make more low-cost housing available to more American families.

Financial Reform Actions

Proposals set forth in the Financial Institutions Act are the best means of alleviating rigidities in the financial system that now make it difficult for lenders to channel funds into housing during periods of inflation and rising interest rates. The ABA supports provisions in the Act that would:

* Eliminate FHA and VA mortgage interest rate ceilings;

* Permit thrift institutions to make residential construction loans without a permanent mortgage takeout;

* Provide a tax credit on residential mortgage income as an incentive for all mortgage lenders to channel additional funds into housing. To be effective, such a

We do not believe that credit allocation plans that include economic disinc such as supplementary asset reserve requirements, would efficiently channel fund priority areas. Positive incentives, such as the proposed tax credit, would be effective. Direct housing subsidies for the consumer could be considered as an ditional stimulus, if needed.

Curbing Inflation

A stable economic environment coupled with reasonable interest rates is the important long-run aid to housing. To that end, we must consider the following

* Fiscal restraint: Federal spending should be reduced to $300 billion fo and allowed to increase no more than 3 percent in FY 1976.

* Monetary stability: Growth of the money supply should be gradually slow non-inflationary rates, as in the early 1960s. Erratic swings in the aggregates be avoided. The most recent rates of monetary expansion are appropriate, howeve further tightening is not needed now.

* Tax reform: Existing tax incentives should be reviewed to eliminate out tax relief programs and stimulate individual savings and investment in housing a as other areas of social need.

* Deregulation of industry: In several industries, such as transportatior the postal service -- radical deregulation should be considered to improve produ

* Public employment programs: It may be useful to experiment with such pr on a limited basis.

* In the private sector, several disturbing economic trends need to be rev Recent declines in the aggregate savings rates indicate some erosion in our real base -- in part because many businesses have failed to make adequate allowances plant and equipment depreciation in an inflationary economy. For its part, Amer labor must resist the temptation to pursue its short-term interests which can or self-defeating. Finally, we all have a personal responsibility to expect and re our elected officials to make policy decisions designed to control inflation -- if it means accepting curtailment of public projects in our own communities.

September 12, 1974

HOUSING AND INFLATION

As President Ford has noted on various occasions, there can be no doubt that inflation is the number one domestic problem facing the United States. It is also unfortunately true that the burden of inflation is being borne disproportionately by the housing and construction sectors of our economy. I am most pleased, therefore, to have this opportunity to present my views on the causes of our current inflationary situation, and some suggestions for policy actions which may help to alleviate the impact of inflation on the housing sector.

TODAY'S INFLATION: HOW WE GOT HERE

Our present high rate of inflation began in the mid-1960s with the escalation of the war in Southeast Asia. Under the "guns and butter" policy, the Administration remained fully committed to the Great Society Program and at the same time made no serious attempt to obtain an increase in taxes, to cut other government expenditures, or to discourage civilian spending. Thus, no move was made to free the resources needed to support the war effort on a non-inflationary basis. After delaying action on the fiscal front for four years, a tax increase was finally enacted in 1969 to provide a federal surplus of $3.2 billion in that year, following a 1968 deficit exceeding $25 billion.

Unfortunately, the deflationary impact of this budget surplus happened to coincide with the impact of restrictive monetary policies adopted in the wake of the 1968 budget deficit. The restrictive monetary policy produced a

recession in 1970-71.

Although the recession was reflected in a substantial increase in unemployment and a decline in GNP, it did not have the normal beneficial effect on prices. Rather, the economy first experienced a decline in output, and unemployment rose as prices continued to climb. In 1971 this produced what is now called "stagflation", in that prices continued to rise while output lagged and unemployment remained at high levels.

This created a strong national sense of frustration which resulted in an ill-fated experiment with wage-price controls. As is now generally recognized, the controls merely suppressed the underlying forces of inflation temporarily and resulted in significant market distortions. Moreover, the adoption of mandatory controls freed the monetary authorities to attempt to speed recovery by expanding monetary aggregates.

Price controls were subsequently abandoned in 1973 and President Ford has announced that he has no intention of reviving that experiment. While many bankers were hopeful that the experiment would prove successful when it was first attempted in 1971, most bankers today feel that wage-price controls should not be reinstated. Such controls only distort the market system and prevent improvements in productivity and efficiency in our economy.

It is now generally recognized that a series of unfortunate developments in specific commodity markets over the past few years have also accounted for a portion of the recent increase in our price indexes. Specifically, the energy crisis and the severe weather problems encountered in major food producing nations have significantly contributed to inflationary pressures. Hopefully, the agricultural problem will prove to be transitory.

ven if future increases in energy prices prove moderate, short-run onomic measures will not solve the problem of financing our oil deficit. ther, the solution requires either a practical and stable political arrange- nt with the Organization of Petroleum Exporting Countries, and/or a more pid movement toward energy self-sufficiency.

In the face of these unusually complex and intense inflationary forces, is not surprising that our monetary authorities have been unable to achieve eir goal of serving as an effective countervailing force to the shifting nds of inflation.

Whether or not the current slow-down should be called a recession is not portant now. What is important is that we are certainly experiencing a drop real GNP: from $845.7 billion (in 1958 dollars) in the fourth quarter of 73 to $828.0 billion in the second quarter of 1974, a 2.1 percent decline.

Unfortunately, this decline has been accompanied by the development of o-digit inflation. The money supply in the last three quarters has expanded an average rate in excess of 7 percent, and government spending in the last ree quarters has had a 14 percent annual rate increase. The stock market s experienced a dramatic decline. Capital for business expansion is scarce. d mortgage money for prospective home buyers is very difficult to find.

Although unemployment has not increased dramatically, and many important dustries are operating at or near full capacity, developments since last mmer have severely impacted certain major industries. The housing industry, which this paper is focussed, has been particularly hard hit by inflation.

Housing is in a serious slump. In July, new housing units were begun at an annual rate of 1.3 million, 16 percent below the 1.6 million pace in June, and 38 percent below the 2.2 million rate of July 1973. New building permits, an indication of future housing starts, were off nearly 43 percent from a year ago.

Home buyers, would-be buyers, renters, sellers, housing lenders, and builders all have been deeply affected by the rampant inflation in housing costs. Hardest hit have been those with low or moderate incomes -- particularly the elderly -- who have too often found themselves priced out of the market for most decent housing in the last few years.

Increasing Housing Costs

The costs of a home have skyrocketed. Land, materials, labor, taxes interest and insurance have all zoomed upward as the data for the last two decades indicates:

Percentage Change in Home Ownership Costs
1953-1973

Elements of Cost	Percentage Increase
Mortgage Interest Rates	54.4%
Home Purchase Cost	64.3 a/
Property Taxes	75.7 b/
Property Insurance Premiums	76.2
Fuel and Utilities	52.9
Maintenance and Repairs	112.1

a/ 1953-1972
b/ 1963-1973
Source: Bureau of Labor Statistics: U.S. Department of Labor

costs increased at a slower rate than mortgage interest costs. When the results are in for 1974, fuel and utility cost hikes very likely will have surpassed interest increases.

While the figures for the last two decades are dramatic, costs of housing have accelerated most rapidly in recent years. For example, a new home selling for $35,300 in December 1972 sold for $40,900 a year later -- a 16 percent jump. Since 1970 the national median price for new single-family houses has jumped 50 percent; for used houses, prices have jumped 40 percent. What this means is that the detached single-family house, to a large degree, is becoming a luxury only for the affluent. For more and more people, inflation is eroding the ability to buy a home. Clearly, the high price of the house itself is hurting the housing market at least as much as the financing problems encountered in the mortgage markets.

HOUSING GOALS IN AN ENVIRONMENT OF OTHER SOCIAL PRIORITIES

The achievement of decent housing for all Americans unquestionably remains an important goal. However it should not be viewed in isolation, but must be weighed against other national priorities - such as energy self-sufficiency, urban renewal, transportation, and adequate food production.

The Housing Act of 1968 set a goal to build or rehabilitate 2.6 million housing units per year. We reached that goal in 1971-1973, but only by including one-half million mobile home shipments in each of those years. The 1974 annual rate is currently running at 1 1/2 million units, excluding mobile home shipments. The failure to meet the goal set in 1968 has

selves in pursuit of this goal. Clearly, it is time to re-evaluate the 2.6 million unit annual goal to determine whether it is realistic as presently defined. In this connection, the following questions must be answered:

* Can these units be built, and sold or rented profitably at today's housing prices and costs?
* Must they be built under archaic building codes and standards, and often under zoning laws requiring single units at present day land costs?
* Should they be built under existing construction practices which are highly labor intensive? To what extent is the mobile home approach a good answer to improve productivity and provide lower cost housing?
* Can we provide and maintain the necessary services for such increases in new housing -- additional water, sewerage, schools, gas, electric and other facilities?
* Will it mean building in outlying areas beyond the reach of mass transit, requiring new roads and adding to the demand for gasoline?
* Is there really a demographic and economic need for that much additional housing. In what types of housing, and for whom?
* Finally, if the free market system cannot accommodate such an ambitious goal, who will determine the appropriate amount of housing that should be built?

Whether or not the ambitious 2.6 million unit housing goal is realistic, t is quite clear that present levels of housing production are inadequate. efore reviewing specific suggestions to aid housing, some important caveats eserve attention.

First, it must be recognized that the primary cause of the current slump n housing is inflation itself. Thus, as the rate of inflation rises it causes evere problems for all classes of home lending institutions, in both the fund-aising and fund-allocating aspects of their operations. On the fund-raising ide, various types of interest rate ceilings prevent regulated home lending nstitutions from bidding aggressively for funds as inflation drives competing ates upward in unregulated segments of the money markets. Similarly, on the und-allocating side, as inflation drives competing rates upward, usury ceilings nd rate limits on VA and FHA loans tend to make investments in home mortgages ncreasingly unprofitable. It follows from this analysis that measures to educe inflation, as well as prudent measures to increase the flexibility of egulated interest rate structures, would both be advantageous for housing. n subsequent sections of this paper we will suggest some means for achieving hese important goals -- the first through national economic policies, and the econd through financial reform.

Another important caveat relates to the interests of consumer-savers as ontrasted to the interests of would-be homesellers and homeowners. Especially n the context of today's inflation, we need to encourage saving. Thus, it is itally important to note that there are now over 100 million individual savings ccount holders in our economy, while there are only a small fraction of that umber of individuals or families attempting to buy or sell a home. herefore, as we approach the problem of providing relief to the housing sector,

we must be wary of any proposal that unduly penalizes savers for the sake of increasing the flow of funds to housing. This approach not only is unfair to savers, but has also failed to avert housing crises when tried in the past.

With these words of caution in mind, some specific suggestions that may help to alleviate the housing problem will now be reviewed. First, some near term proposals which deserve serious consideration.

NEAR TERM AIDS TO HOUSING

* Additional funds for housing: The Congress and the Administration have already moved in the direction of pumping additional funds into the housing market through the Federal Home Loan Bank system, FNMA, GNMA, FHLMC, and the Farmers Home Administration. More might have to be done, but great care must be exercised to avoid an unduly heavy diversion of funds from private capital markets through excessive reliance on government-backed loans and guarantees.
* Usury statutes: Such statutes represent a major impediment to home loan financing in a number of states across the nation. While we would not suggest that the Congress preempt the right of the states to act in this area, we do feel that every other reasonable means of encouraging the states to repeal or liberalize these statutes should be employed.
* VA and FHA mortgage interest rate ceilings: Prompt action should be taken to eliminate this unwarranted impediment to the smooth functioning of mortgage markets.

* Mortgage loan limit under the 8.75 percent commitment program of the FHLMC: This limit should be increased from $35,000 to at least $55,000 immediately, because well over half the houses being sold are now ineligible for aid.

* Tax-exemption for interest earned from personal savings accounts and time deposits: It has been proposed that interest earned on an individually held savings or time account, up to a limit of perhaps $1,000, be exempt from Federal income taxation. This would provide small and moderate scale savers a tax incentive similar to that currently enjoyed by holders of tax-exempt municipal bonds. It would also have the effect of raising the effective yield on such savings to the depositor, without raising the cost of such funds to lending institutions. Although this proposal would produce some drain on the Treasury's tax receipts, this can and should be offset by reductions in spending on lower priority items in the budget.

* Variable rate time certificates of deposit: This proposal, put forth by the FDIC, would enlarge the aggregate savings held by financial intermediaries, and indirectly increase the funds available for housing and other lending activities. As in the case of the interest tax exemption proposal, it could also have the important effect of providing a fairer rate of return to consumer savers, especially if all institutions are permitted to offer competitive rates.

* Variable rate mortgages: Plans for variable rate mortgages, as suggested by the Federal Home Loan Bank Board, would allow the rate on outstanding mortgages contracted under the plan to rise and fall with the general level of interest rates. This might encourage banks

when interest rates rise. And if a consumer buys his home in a period of exceptionally high interest rates, his mortgage rate will fall when money market rates decline. Such a plan is currently being used by the Federal Land Banks, with the mortgage rate based on the average cost of the Banks' money.

* Standardization of conventional mortgages: With the exception of VA and FHA mortgages, mortgage instruments vary greatly from State to State, making it difficult to operate an effective country-wide secondary conventional mortgage market. Obviously, standardization is in order.

* Federal Housing Administration: Current delays and red tape encountered in dealing with the undermanned, under-financed FHA, add many dollars to the cost of such housing. While this proposal may involve a modest amount of added spending, the FHA needs adequate funding and staffing.

* Building practices: Outmoded building codes and, in some areas, antiquated union regulations, must be changed to permit full use of new technologies in home construction.

* Encouragement of mobile home production: Demographic factors and the high costs of standard home construction are aiding the growing acceptance of the mobile home, and this should be encouraged. They are a rising percentage of the totals. For example, in 1973, mobile homes accounted for 28 percent of total private housing starts and 51 percent of the single family starts. Mobile homes are virtually the only kind of unsubsidized low-cost housing widely available to

opment that must be encouraged, i.e., mass-production methods to lower the cost of housing.

FINANCIAL REFORM: THE LONG TERM SOLUTION TO THE HOUSING PROBLEM

The root causes of our national housing problem are: (1) inflation and (2) the rigidities in our current institutional arrangements for financing houses. The proposals put forth by the President's Commission on Financial Structure and Regulation, which are now embodied in S. 2591 in the Congress, represent the best means available to alleviate the rigidities that exist in our financial system.

Our Association specifically favors those provisions in the Financial Institutions Act relative to the real estate lending powers of both banks and thrift institutions.

These provisions include the elimination of FHA and VA ceilings on mortgage interest rates which lead to the widespread use of "points" and the reduction of funds going to these loans during periods of high interest rates.

Also, thrift institutions should be permitted to make construction loans for residential buildings without a permanent mortgage take-out. The present restrictions curtail an important source of interim residential construction lending.

Another important provision in S. 2591, recently enacted in other legislation is the liberalization of Section 24 of the Federal Reserve Act, which had significantly restricted banks from making mortgage loans.

lending. This provides the best approach for financing social priority needs by mobilizing the resources of all financial institutions through incentives to all lenders, rather than relying exclusively on subsidies to specialized institutions. However, if the credit is to be effective, it should be flexible and set at an appropriate level to cope with the present phase of the housing cycle. Moreover, the incentive should be uniformly applied to all lenders, rather than giving a larger credit to institutions already heavily engaged in housing finance, because this would only reward past lending practices and would not necessarily stimulate new mortgage lending.

One final point should be made on possible ways to help housing. We have carefully reviewed a number of existing proposals that seek to improve credit allocation via punitive measures such as supplementary asset reserve requirements. The Federal Reserve Board is certainly correct in asserting that such compulsory credit allocation schemes would not efficiently channel funds toward socially important areas. Rather, a system of strong positive incentives should be formulated to achieve the same end. The tax credit proposal contained in the Financial Institutions Act (S. 2591) is just such a device, and this approach should be applied to any category of lending which the Congress deems to be socially significant. If further stimulus to housing should be required after the tax incentive has been tested, consideration then should be given to direct housing subsidies to the consumer. As economists have often noted, these approaches would have the virtue of making the social costs of such measures explicit -- rather than having them incorporated in the costs of other products and services by creating artificial barriers to fund allocation in the money markets.

long run. Achievement of a stable economic environment with more reasonable levels of interest rates would quickly alleviate the present shortage of funds in the housing market. While it is important to recognize that there are no instant solutions to the deep-seated problem of inflation, the following macro-economic policy actions should be considered to move the economy onto a less inflationary path to economic growth:

* Fiscal Restraint. As President Ford has suggested, Federal spending should be reduced to $300 billion for FY 1975, and allowed to increase no more than 3 percent (to about $310 billion) in FY 1976.

* Monetary Stability. In the realm of monetary policy, there are two target areas for improved performance that should receive additional attention. The first concerns the need to achieve a slower rate of growth in the monetary aggregates than has been recorded over the past three years. Specifically, the secular rate of growth in the money supply should be moved back gradually toward the levels maintained during the early 1960s, when the rate of inflation was much more moderate. It should be noted, however, that monetary expansion has been moderated lately and thus we do not believe furter tightening is needed now. In addition, the monetary authorities should strive to modulate the erratic swings in the monetary aggregates we have had in recent quarters, partly to accommodate adjustment to disruptive forces elsewhere in the economy. Methods other than those with direct effects on monetary aggregates -- such as discount rate changes -- might be used to affect interest rates to prevent the money and capital markets from expecting monetary policy, in either direction, to remain fixed for long periods. Hopefully, if fiscal

* Tax Reform Measures. In this area it is suggested that existing tax incentives be carefully reviewed to remove outmoded tax relief programs, to stimulate individual savings, and to channel funds where they best serve the public interest. As noted above, it might be useful to promote savings, and thereby reduce inflationary consumption, by permitting an exemption from Federal income taxes of up to $1,000 earned by individuals on savings and time deposits. Immediate enactment of a mortgage interest income tax credit also warrants prompt consideration, as noted above.

* Deregulation of Industry. There are a number of critical areas in the economy, especially in the transporation sector and the postal service field, where radical deregulation of industry might enhance the goal of improving productivity in our economy. For example, on the case of the Postal Service, private competition to provide mail deliver, including first class mail, should be permitted. A careful review of existing regulations hampering the development of efficiencies in these regulated industries is certainly in order.

* Public Employment Programs. While the potential pitfalls in moving toward the concept of having the Federal Government serve as an "employer of last resort" are abundantly evident, it may be useful to experiment with this concept on a limited basis, perhaps in connection with the President's proposed amnesty program.

In the private sector, a number of disturbing economic trends are now becoming evident. The recent substantial decline in the aggregate rate of personal and business saving in our economy is particularly worrisome. There are indications that the real capital base of our economy is actually eroding. This is due in part to the fact that many business concerns are failing to make adequate allowances for depreciation of their plant and equipment by not taking account of inflation's impact on replacement costs. Certainly our nation's business leaders should pay much more attention to this development as they re-examine present accounting and capital planning practices.

America's organized workers must also resist the temptation to pursue their own interests in a short-sighted manner which is ultimately self-defeating. Economists have noted that periods in which wages and prices accelerate rapidly are generally associated with declines in real income of workers. Conversely, periods of relative price stability have been associated with significant real gains in the standard of living of America's workers. It follows, therefore, that labor leaders should maintain a responsible posture in negotiating wage increases in key industries during the critical months that lie ahead.

We must also recognize that we all have a personal responsibility to combat inflation in our roles as consumers and voters. It may well be true for example, that the explosive rise in consumer indebtedness in recent years has contributed to the inflation psychology which now grips the nation. In individual cases, this may indicate a need to proceed more cautiously. Finally, we have a responsibility as citizens to expect and require our elected officials to make policy decisions that will bring inflation under control -- even if it means accepting curtailment of public projects in our own communities.

1 On behalf of the membership of the U.S. League of Savings Associations,* we commend President Ford for identifying inflation as the number one domestic problem facing this country and the Ford Administration for embarking on a broad and coordinated program to bring inflation under control.

The objectives of the savings and loan business -- individual thrift and self reliance, and broad-scale home ownership on the part of the American people -- are fundamental to the continuation of our American free enterprise society. These objectives are being eroded today and will disappear unless the forces of inflation are brought under control. These are only two of many phases of our American free enterprise, democratic society that would disappear under continued inflation. We believe that controlling inflation should be the first priority of our Federal Government's economic program -- overriding other objectives which may impede the anti-inflation program.

Because of our deep concern over the effects of inflation on American society, and aiming to be of maximum help in mobilizing public opinion for controlling inflation, reducing Federal spending and making the necessary sacrifices, the savings and loan business will begin in October a broad-scale advertising and public relations program. This will be aimed at providing some of the necessary public education in behalf of President Ford's anti-inflation

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* The United States League of Savings Associations (formerly the United States Savings and Loan League) has a membership of 4,600 savings and loan associations, representing over 98% of the assets of the savings and loan business. League membership includes all types of associations -- Federal and state-chartered, insured and uninsured, stock and mutual. The principal officers are: George B. Preston, President, West Palm Beach, Florida; Lloyd S. Bowles, Vice President, Dallas, Texas; Tom B. Scott, Jr., Legislative Chairman, Jackson, Mississippi, and Norman Strunk, Executive Vice President, Chicago, Illinois. League headquarters are at 111 East Wacker Drive, Chicago, Illinois (60601); and the Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. (20006); Telephone: 785-9150.

communications by individual savings and loan associations to citizens throughout the country. Early next year, there will be mailings to millions of savings and loan depositors. This is evidence of our deep commitment to the fight against inflation and support for President Ford, the Administration, the Congress, and the Federal Reserve in steps taken for this purpose.

*   *   *   *

Specifically, we would suggest the following Federal anti-inflation programs and policies:

(1) Every effort should be made by the Administration to achieve a Federal budgetary surplus at the earliest possible date. Even a modest surplus would have a salutary effect. It would reduce the enormous credit demands now being made by the U.S. Treasury on the already tight capital markets. A budget surplus should be achieved without an increase in taxes, if at all possible; but a budget surplus should be achieved even if an increase in taxes would be required.

(2) Despite the fact that thrift institutions are particularly hard hit by tight money policies, we believe that the Board of Governors of the Federal Reserve System should be encouraged in its efforts to restrain the growth of the money supply. The Board of Governors should be encouraged not to relax its restrictive monetary policy too quickly, or pursue policies which will result in a rather substantial increase in money and credit until it is certain that the "back" of the inflationary boom has been broken. The Federal Reserve should be careful not to repeat the apparent mistake of earlier periods by permitting too rapid an expansion of the money supply once the economy improves.

cluding particularly the use of tax incentives. The economy of the United States is a capital-short economy. This situation is likely to persist for many years. The world at large is capital-short.

Capital can only be created by saving -- real saving on the part of individuals, business firms, farmers and governmental units. Budgetary surpluses on the part of the Federal Government will help this process, and will set an example for state and local governments. But, of special importance, will be higher savings levels on the part of private citizens throughout the country. To encourage higher savings levels we recommend approval of a tax exclusion for the first $1,000 of interest earned on savings accounts at supervised financial institutions. These would include savings and loan associations, mutual savings banks, commercial banks and credit unions.

Exempting the first $1,000 of income earned by savings depositors in financial institutions would increase the total amount saved on the part of the American people. In addition, it would substantially improve the availability of funds for housing and state and local governments -- the two areas which have borne the brunt of the current restrictive monetary policy. Such a tax incentive would encourage savers to keep their funds with financial institutions and reduce "disintermediation". Savings and loan associations and savings banks invest savings deposits overwhelmingly in the residential real estate sector of the economy. Commercial banks invest savings deposits primarily in the securities of state and local governments and cover a broad range of lending purposes. This proposal would also extend to the small individual saver the same types of tax planning opportunities now available only to wealthy individuals who invest in state and municipal bonds. And, since it would improve the effective yield

notes promoted recently.

Tax incentives for savers -- particularly those who put their funds in housing-specialized lenders -- are common in countries throughout the western world. The United States is an exception. There are many ways that a tax incentive program for savings could be structured, but we believe the simplest would be the $1,000 exclusion described above.

(4) We support the basic concept of public service employment as recently advocated by Chairman Burns. Somehow the connection between unemployment and inflation should be broken. If Federal anti-inflationary policies could be developed independently of concern for unemployment, we would have a greater chance of breaking the inflation cycle. If people could be assured of some type of employment or job training, the social and economic pressures for increased Federal spending and easy monetary policy could be substantially reduced. We would, therefore, urge legislation which would signify the intention of the Federal Government to be an "employer of last resort" and urge that special training programs be developed for those who are unable to find employment in the private sector.

(5) Business should be encouraged to increase productivity. We recommend investment tax credits and other incentives which would stimulate the achievement of higher productivity levels. Special tax incentives would appear to be particularly appropriate for those areas of the American economy where an increase in productive capacity is clearly called for, i.e., energy resources and production, various raw materials, and farm commodities. Such tax incentives do not directly affect our business; however, the tax incentive

from the Hunt Commission recommendations) could well be considered in this context. However, it should not be presented to Congress or viewed by Congress as a substitute or alternative for the bad debt deduction permitted savings and loan associations and savings banks under Section 593 of the Internal Revenue program. The loss in tax revenue to the Treasury Department could well be offset by the added taxes produced from increased productivity in the housing sector.

* * * *

The above constitute our specific recommendations directed toward the inflation problem. In addition, we have a number of other suggestions that would improve the flow of funds into the residential mortgage market.

The great problem of today's residential mortgage market is the fact that savings and loan associations are virtually out of the market -- lending very few funds except for prior commitments. This is particularly true with respect to big institutions in the larger cities. A great need of the mortgage market is for positive net savings flows to savings and loan associations at a cost that these institutions can afford to pay.

The housing economy cannot prosper or even make a reasonable comeback unless there is a source of funds for home buyers at rates and terms more reasonable than those which prevail today. The only realistic source for substantial flows of funds into housing at reasonable interest rates is the savings and loan business. Savings and loan associations are locked into residential mortgage investments by the tax and banking laws and are the only certain source of credit for housing. Commercial banks and other lenders cannot "take up the slack" in the foreseeable future. Typically in tight money periods banks put their funds

oan associations at rates no higher than those permitted by today's savings ceilings will most certainly open up savings and loan lending windows for ypes of residential loans -- new houses, existing houses, small apartments, thers. (Even so, mortgage lending in a number of states is subject to ic usury law restrictions.)

What is needed is a flow of savings dollars into thrift institutions, ook and certificate accounts. Home Loan Bank credit, even at subsidized , would be helpful, but special programs such as the $10.3 billion program nced by the Administration in April are far less productive than governmental ies to discourage disintermediation or actually promote flows of funds into nstitutions.

Federal financing programs through the FNMA, the FHLMC, GNMA, and the al Home Loan Bank System, financed either directly by these agencies or gh the Treasury, tend to be partially counter-productive. Additional ure on the money and credit markets aggravates disintermediation and bids elds. Unfortunately, a substantial portion of funds obtained by the Treasury he Federal agencies come directly from the thrift institutions which, in t, trade deposit money obtained at rates from 5-1/4% to 7-1/2% for money used rrowed at substantially higher market rates.

A healthy housing industry, and healthy savings and loan associations, ssential to the American economy and the American way of life. With this round, we offer the following further suggestions:

(1) Swift Congressional action on H.R. 11221, the Depository Institu- Amendments Act of 1974. Of particular importance is the increase in deposit ance coverage by the FSLIC and the FDIC. This bill is in conference. We

There is no question but that there exists some crisis of public confidence in financial institutions. An increase in FSLIC/FDIC coverage at this point would have a salutory effect on public attitudes relative to the safety of financial institutions of all types. The decision of the Administration to support an increase in deposit insurance from $20,000 to $35,000 made on August 7 was most welcome. In view of the credit problems in the housing industry, we would hope that the Administration could see its way clear to supporting a still higher figure -- preferably the $50,000 approved by the House.

The Administration's opposition to the concept of 100% insurance of public funds in H.R. 11221 is well known. We would hope, however, that the Administration would review its position and support legislation whereby some modest deposits of public funds could be placed in savings and loan associations and mutual savings banks, possibly with an insurance limit of a particular dollar amount per deposit. This would permit savings institutions to attract the smaller public deposits and avoid the concerns that have been raised with respect to a full 100% insurance program on the markets for state and local government securities.

(2) The Federal agencies might well review their policies with respect to the size of large, negotiable certificates of deposit issued by financial institutions free of rate control. One suggestion would be to seriously consider raising the $100,000 minimum for the large denomination CDs to $200,000. It is well recognized that an increasing number of smaller investors have been using various pooling devices to invest in the large, high-rate CDs. This problem can be alleviated somewhat by an increase in the minimum size of such obligations or by bringing all deposit instruments in denominations of $200,000 or less under the

savings or certificate account. As stated above, the real solution to the credit problems in the housing industry is to assure a stronger flow of funds into thrift institutions without raising their costs of money. In this connection, the savings and loan business could make great use of a tax-deferred savings account and we believe that this could be authorized by the Treasury without legislation. The savings bonds issued by the Treasury Department provide a tax-deferred feature, but this is prohibited to financial institutions by the Treasury's so-called Original Issue Discount Bond regulation. There are many, many people who would place funds in a tax-deferred account in a thrift institution. Such an account would provide a flow of longer-term funds into our institutions. This would lengthen the maturities of our liabilities and provide a source of funds of the type needed for investment in home mortgages. The revenue effect should not be too great, and financial institutions would have a valuable "product" to offer. We believe this could be done administratively, rather than by legislation, with immediate, specific help to the housing economy.

(4) The Federal Home Loan Bank Board should be encouraged to proceed with regulations to regulate and encourage the use of the variable interest rate mortgage. The variable interest rate mortgage has been discussed for many years as a vital part of necessary improvements to the mortgage market and to strengthen savings and loan associations. The "time" of the variable rate mortgage appears to be here, but its use awaits Federal encouragement.

The Federal Home Loan Bank Board is ready to publish proposed regulations (for which it has authority), but is awaiting hearings on the subject before the House Banking and Currency Committee. We would hope the Administration

mortgages in as liberal a form as possible.

The early authorization of a variable rate mortgage would provide borrowers and lenders with an important new form of mortgage contract. In times like these, when few lenders are willing to commit funds for long-term investment, the variable rate mortgage offers a fair arrangement for both lenders and borrowers, without many of the disagreeable aspects of long-term, fixed-rate commitments found in current mortgage contracts. Thus, the offering of variable rate mortgages could be expected to lead to a quicker freeing-up of funds for residential construction and home ownership.

(5) We believe that parts of the Administration's proposed Financial Institutions Act should be passed by the Congress to improve the functioning of thrift institutions and to make them more competitive with commercial banks. A major stumbling block with respect to favorable Congressional action on the Financial Institutions Act is Title I of the bill relative to rate control ceilings and the proposal for eliminating the bad debt reserve allocations authorized for savings and loan associations and mutual savings banks under Section 593 of the Internal Revenue Code. If the Administration were willing to separate the rate control subject from the Financial Institutions Act and drop its efforts to repeal Section 593 of the Internal Revenue Code, we believe that a consensus of support for this type of legislation could rapidly be developed.

ON SEPTEMBER 12, 1974

I. Fundamentals

1. The U. S. League of Savings Associations favors a budgetary surplus achieved primarily through limitations of Federal expenditures, but if necessary by an increase in the tax level.

2. The U. S. League of Savings Associations favors a budgetary surplus for fiscal 1976 and indeed considers this an essential factor in any successful effort to reduce inflationary pressures.

3. Priorities are difficult to assess by those outside the governmental structure, but in general, the U. S. League would favor at least an adequate defense budget and maintenance of essential social programs. Some long-term projects undoubtedly could be stretched out. Perhaps some of the environmental programs can be carried out over a longer period of time than now envisioned, and possibly there can be some reordering of priorities which would have the effect of reducing the immediate budgetary pressures. Obviously the League would favor programs which would prevent the collapse of the housing industry.

4. We favor no reduction in Federal taxes at this time. If necessary to achieve a budgetary surplus we would favor an increase in Federal tax levels. In that event, we would favor a type of surtax which might be "locked up" for release back to citizens later when required to stimulate the economy.

5. Despite the adverse effect which tight monetary and credit policies and the accompanying high interest rates have had on the housing industry and

Federal budget surplus,or at least no budget deficit,along with some tax incentives for added savings,would reduce the need for monetary restraint or at least allow credit to be maintained on a less tight basis than in recent months. We would hope also that the housing sector would not be expected to continue to bear a disproportionate share of the impact of monetary and credit policies. This objective can be achieved in part at least by efforts on the part of the Treasury and the Federal agencies to minimize the extent of disintermediation and commercial bank competition for private savings with thrift institutions. Maintaining the integrity of the Regulation Q ceiling program restoring to thrift institutions their historic rate differential with commercial banks would be a primary government program to make certain housing does not continue to bear a disproportionate share of tight credit policies.

6. We did not favor the devaluation of the dollar in international money markets since such devaluations have added to inflationary pressures domestically. We do not pose as experts in international finance but raise the question of whether the dollar is not now strong enough internationally to be revalued upward.

7. We believe the President should emphasize the point that every citizen is hurt by inflation and every citizen has a responsibility to help contain it. If each citizen eased his current demands and saved slightly more, this would help tremendously in containing inflationary pressures. Thus we favor some belt tightening in terms of current consumption patterns and some stretching out of expenditures, particularly for major items of expenditure, perhaps planning to take three years to buy what had been projected for two years.

strongly recommend a tax credit for interest earned from savings deposits in supervised financial institutions. A tax incentive for savings should result in some shift from spending to savings, thus reducing inflationary pressures.

II. Specific Recommendations for the Housing and Construction Sector

1. In the building industry, as well as in other sectors of the American economy, there are regulations which have the effect of reducing productivity currently and which also inhibit the improvement of productivity. These may be found on local, state and Federal levels and include various building codes, land use regulations, extreme standards with reference to various protections against hazards, cumbersome recording requirements, legal red tape in approvals for new developments and a host of similar regulations. On the Federal level reference may be made to the detailed regulation of home financing institutions, the myriad of reports required by regulatory and taxing authorities, and the proliferation of bureaucracy throughout the Federal establishment, particulary with reference to the building industry.

2. In order to increase the availability of capital funds and money for the financing of housing, we recommend the swift enactment of H. R. 11221 which would provide for the increase of deposit insurance to $50,000 and for 100% insurance of certain public funds in order that these may be deposited in thrift institutions. In addition, we favor both a tax deferred savings certificate and special tax incentives for savings, both as a means of fighting inflation generally and as a device for channeling more funds into the housing sector.

institutions act should be passed by the Congress to improve the functioning of thrift institutions and make them more competitive with commercial banks. We believe that the Federal agencies, primarily the Federal Home Loan Bank Board, should be encouraged to proceed with regulations to encourage the use of the variable rate mortgage. The most important device, however, for improving the flow of capital funds for home financing would be a tax incentive for savings along the lines suggested by Senator Taft in S. 321, but with exemption of $1,000 rather than $500.

3. We hope that wage and price controls can be avoided. If it becomes necessary to make use of them we recommend a complete system of rationing of those sectors which are covered by price controls. If some type of wage and price control system is instituted, the construction industry stabilization council should promptly be reinstituted. This council performed admirably before the institution of full price and wage controls by President Nixon in August 1971. Price performs the economic function of rationing in a free market. When prices are controlled the rationing function must be performed in some other manner. We have no objection and would indeed favor the use of guidelines or private initiatives to restrain excessive demands and excessive expansionary programs.

4. We do not claim to be experts in the area of environmental protection requirements. In general we favor the improvement of the environment. We recommend the review of programs to determine whether some can be stretched out over a longer period of time in order to ease current pressures on capital markets.

5. As indicated above, we favor tax incentives for savings. We would also favor tax incentives for increasing productivity. We have favored and

mortgages might be an appropriate part of any package of new tax incentives providing, however, it is not coupled with a repeal of the bad debt provision for thrift institutions provided by Section 593 of the Internal Revenue Code.

6. We believe that in the housing industry lower and middle income people are being priced out of the market by rising construction costs on the one hand and rising financing charges on the other. There is attached a position paper presenting more completely the suggestions of the U. S. League on anti-inflation programs in general, and programs relative to the mortgage and housing sectors of the economy.

Attachment

Housing and Construction Conference on Inflation
Atlanta, Georgia
September 12, 1974

The burden of inflation weighs heavily on the nation. It permeates the economy -- business, labor and government each being adversely affected. Yet the burden is not equally shared. Among economic sectors, currently imbalanced federal anti-inflation policies fall with a particularly heavy hand on home mortgage borrowers, thrift institutions, housing and state and local governments.

It is essential, therefore, that economic inequities be lessened even as the fight against inflation intensifies. To this end, the savings bank industry urges adoption of the following eight point action program:

1. A federal budget surplus -- or at least a balance -- should be the objective of public policy, permitting a reduction of short-term interest rates.

Unless the rate of inflation abates more rapidly than anticipated or serious unemployment develops, increased fiscal restraint is essential. Ideally it would be desirable to create a federal budget surplus to offset, at least in part, the stimulative effect of heavy borrowings by the federal agencies that operate outside the budget. This would reduce the intolerable burden currently placed on monetary policy which has resulted in inadequate private credit and excessively high interest rates.

Savings banks in July and August combined sustained a $1.5 billion deposit outflow, excluding interest. From April through August, the cumulative deposit loss amounted to about $2.7 billion, the largest for any comparable period. Outstanding mortgage commitments at savings banks and savings and loan associations combined are about 30 per cent below 1973 peaks, while new mortgage commitment activity has virtually dried up.

To achieve a more neutral federal fiscal policy, expenditures should be reduced to less than $300 billion in fiscal 1975. Reductions in expenditures should have top priority in achieving fiscal restraint. If expenditures are not reduced sufficiently, however, then a tax increase may be necessary.

2. <u>Tax exemption or a tax credit should be provided for a portion of interest received on savings accounts.</u>

While it is critical not to impair federal revenues at this time, this kind of tax relief provides several overriding advantages. It would stimulate savings, so essential at this time of capital shortage to fund needed investment. In particular, it would alleviate disintermediation at mortgage-oriented thrift institutions, and provide funds for credit-starved housing markets. And finally, the estimated revenue loss -- about $2 billion in the case of a $1,000 exemption -- is probably less than the cost of direct subsidy programs to housing, through an expanded GNMA/FNMA tandem plan, subsidized FHLB advances to savings institutions and/or other direct subsidy programs which may be adopted if the housing crisis worsens.

3. <u>Deposit insurance should be raised to $50,000 as provided in House-passed H.R. 11221.</u>

This measure is long overdue, in view of long-term increases in the average size of accounts held in deposit-type institutions. Then Vice President Ford previously supported a substantial increase in deposit insurance. The Administration should support early enactment of a $50,000 ceiling.

4. <u>Minimum denominations of U. S. Treasury and federal agency obligations should be raised to $10,000.</u>

In its recent report urging the Treasury to permit individual savers to participate in Treasury offerings, the House Ways and Means Committee included the following essential qualification: ". . . unless it (the Treasury) is convinced that this will result in a serious dislocation for the various institutions representing the market for savings." There can be little doubt that recent Treasury offerings of low-denomination obligations have resulted in such "serious dislocations," aggravating disintermediation at thrift institutions and the shortage of housing credit.

The Treasury should avoid offering excessive coupon rates on auction offerings which artificially inflate demand for its securities among unsophisticated investors and result in lower actual yields than originally announced.

5. <u>Deposit interest rate ceilings, with meaningful differentials for thrift institutions, should be maintained and strengthened.</u>

The changes in Regulation Q ceilings adopted on July 5, 1973 triggered a major shift of funds away from mortgage-oriented institutions to business-oriented commercial banks, as previously existing interest rate ceiling differentials were reduced. The impact of this change is evident in the divergent growth paths of thrift institutions and commercial banks. During the twelve-month period since these regulatory changes, savings deposit growth at commercial banks (including interest) actually increased by 20 per cent over the comparable previous period. By contrast, deposit growth declined sharply at thrift institutions during the same time span -- by 43 per cent at savings and loan associations and by 66 per cent at mutual savings banks.

Deposit interest rate ceilings with meaningful differentials are needed for mortgage-oriented thrift institutions, since their ability to compete is restricted by narrow consumer service powers and low earnings on mortgage portfolios acquired in earlier periods of low interest rates.

6. Legislation should be enacted to prevent the evasion of Regulation Q ceilings by bank holding companies.

The issuance of deposit-type obligations by bank holding companies is a clear circumvention of Regulation Q. While the early flood of such issues has abated recently, the threat of a resurgence is ever-present. For all the reasons requiring maintenance of deposit interest rate ceilings, this threat should be averted. Accordingly, the Administration should support H.R. 15928 and S.3838, reported favorably by the Banking Committees of the House and Senate.

7. Efforts to develop a variable-rate mortgage instrument, equitable to both lender and borrower, should be supported.

Variable-rate mortgage contracts will not alleviate the current housing crisis, but they may be helpful in averting future crises. Thrift institutions' ability to compete in a high interest rate climate is seriously impeded by the sluggishness of earnings on their long-term mortgage portfolios. The variable mortgage contract could eventually correct this structural imbalance through increased earnings flexibility. The favorable impact of variable-rate mortgages will not be felt immediately, however, because of the existence of mortgage interest rate ceilings and the long period of time which must elapse before current holdings of fixed-rate loans are replaced by mortgages with variable-rate features. Therefore, the necessary legislation and public education programs should be set in motion immediately.

8. Thrift institution powers should be broadened; a federal charter alternative should be made available to savings banks.

Broadened, more flexible, investment and consumer service powers would improve the future competitive strength of mortgage-oriented thrift institutions, and thereby increase the long-run supply of housing credit. Increased earnings flexibility and strengthened liquidity positions would enhance the ability of thrift institutions to weather cyclical interest rate swings. Broadened appeal to consumer-savers, moreover, would help reverse the long-run diversion of saving flows from mortgage-oriented thrift institutions to business-oriented commercial banks. Federal chartering authority for savings banks, which are alone among deposit-type institutions without access to the dual chartering system, would be instrumental to the restructuring of the thrift industry.

It will take time for thrift institutions to implement newly authorized powers and reshape their existing asset structures. The necessary enabling legislation, therefore, should be enacted without delay. Major provisions of the Administration's pending Financial Institutions bill (S.2591), which would provide for broadened powers and federal savings bank charters, are strongly supported by the savings bank industry.

Statement
of
National Association of Mutual Savings Banks

Housing and Construction Conference on Inflation
Atlanta, Georgia
September 12, 1974

Note: In order to facilitate the work of the Conference, this statement generally follows the draft agenda enclosed with Secretary Lynn's mailgram of September 4 to conferees and outlines the position of the savings bank industry on the specific issues raised.

The Unequal Burden of Inflation

President Ford succinctly indicated the seriousness of the problem in his August 12 address to the nation when he branded inflation as the domestic "public enemy number one." It need hardly be added that in an economy wracked by inflation of double-digit magnitude, no economic sector can long remain immune. Rampant inflation adversely affects business, labor and government through reduced real incomes, inexorable cost pressures and inevitable distortions in the pricing mechanism.

The burden of inflation, and presently imbalanced federal anti-inflation policies, however, has fallen unequally on the various sectors and groups in the economy. Among individual family units, those living on fixed incomes are clearly the chief victims. Lower-income groups generally have sustained inflation-induced reductions in real incomes. This is especially true in view of extraordinary price increases for food and fuel, which represent a relatively high proportion of the budgets of less affluent families.

Among broad economic and financial sectors, the chief victims have been home mortgage borrowers, thrift institutions, the housing industry and state and local governments. Continued over-reliance on Federal Reserve monetary policy has led to stratospheric levels of interest rates. This has placed a disproportionate burden on these financial institutions and ultimate borrowers who are less able to compete in a high interest rate environment because of structural and regulatory impediments. These inequities are dramatically indicated by the massive deposit outflows at thrift institutions and the depressed state of housing markets, which are documented later in this statement. An effective anti-inflation policy posture, therefore, must include immediate remedial action to alleviate thrift institution disintermediation and the current housing crisis. An eight point program of specific recommendations is outlined later in this statement.

Causes of Inflation

The explosion of double digit inflation in the United States in the 1973-74 period reflected the simultaneous convergence of a number of

The Arab oil embargo and the multiple escalation of petroleum prices by the major oil producing nations was the most dramatic and important of these special factors. Others were: the unique coincidence of booming economic conditions in the major industrial countries in 1973, which increased international competition for scarce resources and worldwide inflationary pressures; crop failures and natural disasters, which further increased international competition for food and other agricultural commodities; the cumulative inflationary effects of two dollar devaluations and the further dollar depreciation under floating exchange rates; and the appearance of supply shortages and inflationary bottlenecks in strategic sectors of the economy.

At times, sharply rising labor costs and slow productivity growth have exerted serious upward cost pressures. Currently, there is a growing danger of an accelerating wage-price spiral, as labor seeks "catch-up" wage settlements to compensate for recent reductions in real incomes.

The chief underlying inflationary force, however, has been the absence of fiscal discipline on the part of the federal government. Inadequate fiscal restraint has contributed to inflated expectations which are unrealistic in relation to our available private and public resources and has fostered the illusion that we can somehow live beyond our national means. It has aggravated the impact of the special inflationary forces mentioned previously. It has also placed intolerable burdens on Federal Reserve policy. This has resulted in disruptive short-run swings between ease and restraint, as well as excessive longer-run monetary expansion to accommodate federal deficits and inflation-swollen private outlays and credit demands.

The record of fiscal policy is dismal. The federal budget has been in deficit in 14 of the last 15 fiscal years. In just the four fiscal years ending June 30, 1974, federal budget deficits totalled more than $64 billion. Clearly, this sea of federal red ink has been a major inflationary force in an economy operating increasingly close to capacity in many critical areas. And even this does not take into account the impact of federal programs outside the budget which have grown enormously in recent years. For example, in fiscal 1973 and 1974 alone, $22.3 billion of net Treasury borrowing from the public was accompanied by $24.4 billion of federal agency financing. Combined Treasury and federal agency demands on capital markets totalled a staggering $46.7 billion in this two-year period.

In our private enterprise system, it is the responsibility of the federal government to serve as the economic balance-wheel, offsetting excesses in the private sector and cushioning the impact of external inflationary forces. Through a lack of fiscal discipline, the federal government has failed to perform this essential function.

Federal expenditures should be reduced to less than $300 billion in fiscal 1975. Such actions would be dramatic evidence of the Administration's determination to put its fiscal house in order. It would at once: (1) create an improved psychological climate in financial markets; (2) lessen federal demands for credit and free up funds for private use; (3) relieve the anti-inflation burden on the Federal Reserve and upward pressures on interest rates; and (4) reduce savings outflows at mortgage-oriented thrift institutions.

With respect to specific programs, we do not have the expertise to weigh the relative merits of the wide range of existing federal national security, social welfare and other programs, which are all desirable in their own right. We believe, however, that rampant inflation is ultimately inimical to both the security of the nation and the welfare of the people. Indeed, inflation in the United States is approaching emergency proportions, and in an economic emergency virtually no federal program should be immune to the strictest scrutiny.

As for expenditure increases, serious consideration must be given to an expanded program of public service employment which would enable government at all levels to act as an "employer of last resort" in areas where unemployment is especially high. Restrictive fiscal and monetary policies may well lead to increased unemployment in the short-run. The unemployed few should not pay the price for benefits accruing to all as a result of controlling inflation. Such a public service program should be adopted within the framework of a budget which is in balance or surplus, emphasizing the need for expenditure reductions in other programs as well as the possibility that taxes may have to be increased.

2. Balanced Federal Budget?

Unless the rate of inflation abates more rapidly than anticipated, a budget surplus -- or at least a balance -- is essential in fiscal 1976. Ideally it would be desirable to create sufficient surplus to offset, at least in part, the heavy borrowings of the "debudgeted" federal agencies.

In urging such determined fiscal restraint -- long a part of the savings bank industry's economic policies -- the need for flexibility is essential in the event of serious recession. The reduction in tax revenues accompanying a deep recession would, in any event, plunge the budget back into deficit. Unless economic activity is considerably weaker than now expected, however, efforts to bring the federal budget into surplus should be pressed forward vigorously.

3. Changes in Federal Taxes? Further Tax Incentives or Deterrents?

Current levels of federal taxation are clearly too low relative to current levels of federal expenditures. Stringent spending cuts

vital if inflation is to be controlled.

The question of a tax increase carries with it critical questions of timing and incidence. While Congressional action on a tax increase is unrealistic before early 1975, immediate Administration planning is essential to smooth the road ahead, if action proves necessary. Any change in taxation, moreover, should seek to encourage, rather than discourage, private saving and investment as a means of stimulating productivity and production in line with growing demand. The latter would include a tax exemption or credit for a portion of interest income earned on savings accounts.

Consideration should also be given to a system of selective excise taxes which would discourage consumption of commodities which are in particularly short supply. An excise tax designed to encourage production of fuel-saving, lower-power automobiles is but one example.

4. Encourage Productivity?

While the overall focus of fiscal policy should be directed toward restraining aggregate demand, fiscal policy can also make a major long-run contribution to reducing inflation through appropriate tax policies designed to encourage increased private saving, investment and productive capacity. Liberal provisions for accelerated depreciation and an increased and more flexibly administered investment tax credit are possible examples. From the standpoint of housing, the most important provision would be tax exemption or a credit for interest income earned on savings accounts.

Such tax measures should, of course, be adopted within a framework of a federal budget which is in balance or surplus, and in light of current overall economic policy requirements. Fiscal stimulants for savings and investment would, however, increase production, incomes and tax revenues and help keep the budget in balance in the long-run.

Tax exemption for savings account interest, moreover, would help reverse current massive deposit outflows at mortgage-oriented thrift institutions and increase the flow of credit to housing. The impact of revenue losses resulting from this measure, therefore, would tend to be offset by the reduced need for emergency housing subsidy and credit programs. Accompanied by other measures -- including maintenance of Regulation Q with meaningful differentials for thrift institutions -- tax exemption for savings account interest would also help redress the inequities inherent in current anti-inflationary economic policies which place a disproportionate burden on the thrift institution and housing sectors.

Tax incentives for individual saving and for savings account flows in particular have long been utilized in many Western European and other industrially advanced nations. Such measures have been an integral part of the overall economic policies to stimulate saving, investment and real economic growth in these countries during the post-World War II period.

5. Changes in Governmental Regulations to Increase Productivity? .g.', Changes in Environmental Protection Regulations

In the financial sector, various governmental restrictions nd regulatory actions have distorted the flow of saving into productive nvestment and therefore indirectly inhibited productivity. A prime examle are long outmoded legal restrictions on the competitive powers of ortgage-oriented thrift institutions. Major provisions of the Administraion's pending Financial Institutions bill (S.2591) -- including broadened nd more flexible investment and consumer service powers and a federal harter alternative for state-chartered savings banks -- would help trengthen the vital savings-investment process and are strongly supported y the savings bank industry.

Changes in Regulation Q ceilings adopted in July 1973, moreover, have further weakened the competitive position of mortgage-oriented hrift institutions relative to business-oriented commercial banks and have ontributed to depressed housing conditions. During the twelve-month period ince these regulatory changes, savings account growth at commercial banks including interest) actually increased by 20 per cent over the omparable previous period. By contrast, deposit growth declined sharply t thrift institutions over the same period, by 43 per cent at savings and oan associations and by 66 per cent at mutual savings banks.

Finally, the existence of artificially low mortgage interest ate ceilings under state usury laws serves not to protect borrowers but o reduce the ability of thrift institutions to generate mortgage funds.

Environmental protection requirements, like useful federal pending programs, must be reappraised in the light of rampant inflation. his is particularly true of those requirements which tend to increase osts and to reduce capital investment and productivity. We do not sugest an abandonment of efforts to protect the environment. Rather, we rge the need to strike an appropriate, but admittedly difficult balance, etween important environmental objectives and the goal of reducing inflation.

6. Federal Monitoring and Publication of the Economic Impact of rice and Wage Decisions and Related Government Decisions.

Monitoring wage and price changes through the reactivated ost of Living Council would serve a useful function in focusing attention n excessive wage and price actions. In the short-run, it is unlikely that mandatory system would be effective. As noted below, however, a system hich would permit direct Presidential action may be necessary in the ong-run.

7. Price and Wage Controls, Guidelines, or Private Incentives?

We do not now favor the granting of authority to impose age and price controls.

The housing industry is one of the chief victims of the virulent inflation affecting our nation. Housing starts plummeted to their lowest levels in 4 years during the summer months, and are likely to decline even further in the remainder of 1974. Current indications are that starts of home and apartment house units combined will total only 1.4 million units in 1974 as a whole -- about 30 per cent below 1973 and representing the lowest level of activity since the depressed conditions prevailing in the 1969-70 period.

Underlying the dismal prospects for housing activity in the months ahead are continuing declines in virtually every major advance indicator of residential construction. These include: (1) a steady weakening in the number of building permits issued and the dollar amount of residential contract awards since the first quarter of 1974; (2) sharp declines in residential mortgage commitments of thrift institutions and other mortgage lending institutions; and (3) deteriorating supply-demand conditions in the market for single-family homes with the number of unsold homes climbing substantially.

The basic health of the housing industry has been seriously undermined by the 1974 reduction in construction. This year's downturn represents the second in less than a year and the fourth in the past nine years. So far, the toll on the industry in 1974 has been heavy. The unemployment rate among construction workers has risen to well over 10 per cent, while construction firm failures are up sharply. If such conditions are permitted to continue, the industry's ability to function effectively in coming years will be severely impaired.

B.. Availability and Cost of Credit

Drastically reduced availability of mortgage credit and soaring mortgage interest rates are mainly responsible for depressed housing market conditions. Massive deposit outflows at mutual savings banks and savings and loan associations -- the major sources of residential mortgage credit -- have forced these institutions to cut back sharply their home and apartment house mortgage lending activity. During the 15-month period ending July 31, 1974, outstanding mortgage commitments at mutual savings banks had dropped by about 40 per cent and at savings and loan associations by nearly 30 per cent. New commitment activity has declined even more sharply, according to available indications.

Further declines in new mortgage commitments are indicated by the fact that disintermediation at thrift institutions shows no signs of abatement. In the case of mutual savings banks, cumulative deposit outflows in July and August, excluding interest credited, amounted to $1.3 billion, according to preliminary estimates. This brought the total loss during the April-August 1974 period as a whole to about $2.5 billion -- the largest 5-month deposit loss on record for the savings bank industry.

Excessive reliance on Federal Reserve monetary policy to combat inflation has been the root cause of disintermediation at thrift institutions and, hence, the shortage of residential mortgage credit. Reflecting Federal Reserve monetary restraint, soaring interest rates on open-market investments have drained funds from mortgage-oriented thrift institutions. As noted earlier, moreover, thrift institution disintermediation has been aggravated by the improved competitive position of business-oriented commercial banks resulting from the change in Regulation Q ceilings in July 1973. In the current high interest rate environment, thrift institutions are unable to compete because of the sluggish earnings on their long-term mortgage portfolios, which include many loans acquired in previous low interest rate periods.

Thus, increasing numbers of potential buyers and renters in the housing market are unable to obtain mortgage credit. Even the diminishing number of borrowers who are able to arrange financing are finding home mortgage interest rates prohibitive in many cases. Home mortgage rates have risen to 10 per cent or more in many local markets, with upward pressures continuing strong at the present time.

The present degree of monetary restraint, if continued, will further deepen the housing slump, with long-lasting adverse effects on the housing industry. Moreover, it could have disastrous effects on thrift institutions. Immediate remedial actions are needed, as indicated later in this statement.

C. Availability and Cost of Materials, Land and Labor

Inflationary pressures in the housing industry have been among the most severe in the economy. Serious shortages of a variety of critical building materials have been a major factor in sharply rising construction costs, reflecting strong international demands, capacity shortage problems, and the after-effects of the lifting of wage-price controls earlier in the year. Expectations are that overall increases in construction materials costs will abate somewhat in the near future in the face of reduced demands by builders. By contrast, construction wage costs are likely to rise more sharply in the months ahead as the large number of labor contracts due to be negotiated reflect "catch up" provisions.

D. Effect of Government Regulations Such as Land Use and Environment

The need for greater efficiency of land utilization for residential development increases with each passing year, as the supply of land

located in populous areas becomes more scarce. The growing trend towards condominium, "new town" developments and mobile home construction as well as the widely criticized geographic differences in building code requirements strongly suggest that a comprehensive examination of government regulations, including those covering environmental constraints, should be undertaken.

E. Special Problems of the Poor and Minorities

Escalating mortgage interest rates, land and material costs and wage rates have raised homeownership and rental costs beyond the reach of increasing numbers of low- and middle-income families. The median sales price of new single-family homes, for instance, has increased by some 50 per cent to approximately $36,000 during the 4-1/2 year period ended June 30, 1974. Even this excludes the effects of substantial increases in costs of mortgage interest, property taxes, homeowners' insurance and property maintenance. Indeed, current estimates indicate that more than one-half of all the families in the United States cannot afford to purchase new homes at present price levels.

In addition to the basic measures recommended later to increase the overall supply of mortgage credit, the following approaches should be considered in broadening lower-income family access to the housing market:

1. Explore the possibility of extending maturity provisions on federally-assisted mortgage loans to ease monthly payment burdens;

2. Reactivate the section 235 homeownership assistance programs with special emphasis on tightening up administrative procedures;

3. Continue to experiment with pilot housing allowance programs providing direct cash assistance to eligible low income applicants for the purpose of purchasing or renting shelter;

4. Expand family budget assistance programs; and

5. Increase federal support of research activities aimed at reducing dwelling unit construction costs through technological and structural innovations.

F. Other Federal Mortgage and Housing Programs

Federal housing and mortgage programs in 1974 have been dominated by: (1) the Administration's $10 billion program announced in May to stimulate housing construction through the disbursement of Treasury funds for mortgages carrying below-market interest rates; and (2) stepped-up mortgage support operations by federally-sponsored credit agencies. The stimulative impact on housing of these two activities is highly doubtful.

he Administration program has, at best, provided temporary stop-gap aid f marginal significance. Estimates place the maximum impact of the rogram at about 300,000 units. Moreover, together with other federal gency borrowing operations, it serves only to aggravate inflationary and nterest rate pressures, by tapping both the U. S. Treasury and the private apital markets for funds. Clearly, these pressures have aggravated isintermediation at mortgage-oriented thrift institutions.

Federal housing programs should be geared toward strengthen-ng the private sector's overall capacity to provide residential mortgage redit, while directing its direct spending programs to areas where private nvestor participation is not feasible. This would help to minimize the ypes of pressures on spending programs which would hamper federal ef-orts to control budget outlays.

nflation and the Non-Residential Construction Industry

Nonresidential construction markets have fared considerably etter than the housing sector during the tight money period of 1974. This eflects, in part, the relatively stronger competitive position of non-esidential loans in the nation's mortgage markets. Free of artificial egal ceilings, interest rates on nonresidential mortgage loans have esponded more flexibly to the high interest rate environment, enabling his sector to continue attracting large amounts of mortgage funds from nvestors. In addition, the inclusion of mortgage provisions providing nvestor participation in the revenues of income derived from the mortgaged roperty has appealed to a growing number of lenders. Perhaps most im-ortant, major sources of nonresidential funds -- commercial banks and ife insurance companies -- are better able to compete for funds than thrift nstitutions, the chief sources of private housing credit.

Nonresidential markets, however, have not been immune to nflation. While the dollar amount of construction in the first half of 974 ran 11 per cent above year-earlier levels, the outlook for the re-ainder of this year is for a levelling off in activity in response to a rospective deepening decline in the overall availability of mortgage redit. The possibility of a weakening in plant and equipment spending rograms of business is a further potentially adverse factor. The profit queeze in many industries and growing difficulties encountered by public tilities in borrowing funds have already led to cancellations or deferrals f new capital projects. In real terms, therefore, this could mean an ctual decline in total nonresidential construction spending.

Growth of the nonresidential construction sector is, of ourse, necessary to achieve the type of expansion in the nation's produc-ive capacity which would stimulate noninflationary, long-term economic rowth. In general, the actions needed to lessen inflationary pressures nd lower mortgage interest rates are no less critical to the health of ommercial, industrial and other nonresidential building markets, than hey are to the housing sector.

high cost and restricted availability -- is the immediate problem facing the housing and other construction sectors. As emphasized throughout this statement, presently imbalanced federal anti-inflation policies have thrust a disproportionate burden on mortgage-oriented thrift institutions and the housing industry. Within the overall framework of federal economic policy, immediate remedial actions are needed to alleviate massive disintermediation at thrift institutions and the housing crisis. To achieve this end, the savings bank industry strongly urges adoption of the following eight point program:

1. A federal budget surplus -- or at least a balance -- should be the objective of public policy, permitting a reduction of short-term interest rates.

2. Tax exemption or a tax credit should be provided for a portion of interest income received on savings deposits.

3. The Administration should support early enactment of the increase in deposit insurance to $50,000 as provided in House-passed H.R. 11221.

4. Minimum denominations on U. S. Treasury and federal agency obligations should be increased to $10,000. The Treasury should avoid offering excessive coupon rates on auction offerings which artificially inflate demand for its securities and result in lower actual yields than originally announced.

5. Regulation Q with meaningful differentials for thrift institutions should be retained and strengthened. The administration of Regulation Q should be improved.

6. The Administration should support H.R. 15928, reported favorably by the House Banking Committee, and S.3838 reported favorably by the Senate Banking Committee, which would curb bank holding companies' evasion of Regulation Q.

7. Efforts to develop a variable rate mortgage instrument, equitable to both lender and borrower, should be supported.

8. Broadened powers, including a federal charter alternative for savings banks, should be authorized for mortgage-oriented thrift institutions, as provided by sections of the Administration's pending Financial Institutions bill (S.2591).

SUMMARY STATEMENT OF GILBERT G. ROESSNER, PRESIDENT,
NATIONAL SAVINGS AND LOAN LEAGUE
PRE-SUMMIT MEETING ON HOUSING AND CONSTRUCTION - 9/12/74

We have an opportunity, because of the Economic Summit called by President Ford to attack the inflation that continues to rage unchecked throughout the land. It is an opportunity for all of us to cut through the morass of economic and political posturing that has accompanied the unacceptable across the board increases in prices. We must return to an economy that adheres to fundamentals, experience, and moderation--but it will take a cooperative effort on the part of all Americans. We must, as the President has said, "put our shoulders to the wheel."

Until very recently, our national economic policies were based on the erroneous assumption that because we are Americans, we can have what we want, when we want it. The Arab oil embargo of last year showed us in ominous and dreadful ways how wrong we were.

And so our profligate policies must change--not in the sense of reducing the great standard of living enjoyed by most Americans, but rather to maintain that standard of living without necessarily seeking to enhance it during the difficult times that are ahead for all of us.

The economic evils facing the United States are all too evident: inflation; record high interest rates; depressed housing starts; disintermediation; serious international economic and financial concerns; recycling of Arab oil revenues; the probability of double digit wage increase settlements that will fuel even greater price increases than have already been seen.

We have to come to grips with these and other matters of deep and serious concern which are part of the now dismal economic scenario--and we must do so in a direct and forceful way for the entire World to see.

This is not to suggest that some sectors of the economy should not have access to tourniquets during these difficult times. The elderly, the handicapped, the poor, and others, will continue to need special assistance--and that should be provided within the limits of reason, and without detracting from the main objective: to rid the nation of killer inflation.

Above all, Americans must be made to realize that we cannot have everything we want at the instant we want it. And politicians must not offer false hopes by promising that we can.

The American people are tired of inflation. They are tired of having their wage and their savings eaten away by constantly rising prices. They are tired of having to run hard just to stay even. And they are tired of losing that race.

It is this very disdain for the evils of inflation that provides the Government with an optimum chance to make the economic summit a success. The Executive and Legislative branches of Government, working with delegates to the Summit, can provide the economic leadership to the nation that has been absent for so long, largely because political pressures have consistently held the upper hand with respect to our economic policies. Politics now must be cast aside, and the posturing by politicians about inflation must give way to real action designed to bring our economy back to some semblanc of normality.

Astronomical budget deficits in the past five years represent a major element of the inflationary equation. An unwillingness on the part of either the Administration or the Congress to seek tax increases when needed is another part. Maintaining overly restrictive monetary policies without any aid from the fiscal side rounds out the equation--and we have a spiraling inflation that won't quit.

To rid the nation of inflation, we must take the hard, economic steps necessary to do the job. The economic problems of the United States have been compounded because of our political process. We have as a nation been living beyond our means--because the are more votes to be had if you feed the avarice of people.

But this is in reality cruel and unusual punishment, because it only delays the ultimate payment date. For our nation, it is time to pay.

What can be done to bring inflation under control?

We must work to balance the Federal budget, and to effect a Federal spending limit of $290 to $295 billion. We further recommend the seven per cent investment tax credit be used only on a selective basis, so as to promote investment only in those industries where shortages exist.

We further recommend that the wage price monitoring concept be extended to the t
area, so as to keep a constant watch over demand. At the same time, we urge Congress an
the Administration to develop the mechanism needed to enact a tax increase speedily if
such an increase becomes necessary.

While the battle to eliminate inflation is to be an ongoing war, the housing and
home financing markets--now in a depressed and demoralized state--will need assistance i
order to keep some funds flowing to families who need housing.

To apply this tourniquet to housing, while maintaining the battle against inflation, we recommend the following:

* Exempt from taxation the first $1,000 in interest or dividends earned from savings accounts.

* Provide a mechanism at the Federal level for variable rate mortgage loans.

* Retain dividend and interest rate control, and strengthen such authority for debt of bank holding companies.

* Enact the financial institution reform legislation--but eliminate the proposals in that legislation dealing with rate control and taxation.

* Provide for a new, higher rate certificate of deposit for thrift institutions, with part of the interest on the CD deferred until maturity.

* Allow Treasury deposits of tax and loan accounts to be made in thrift institutions as well as in commercial banks.

* Require Treasury obligations to be issued in denominations no lower than $10,00

* Enact legislation exempting all Federally related mortgage loans from State usury ceilings.

The recommendations of the National Savings and Loan League to the Economic Summi
Conference are intended to strike at inflation in two ways: to insure the economy, via balanced monetary and fiscal policies, functions in the future on an even keel, and to provide short and long range answers to the particular problems facing the housing and home finance markets.

Gilbert G. Roessner

President

National Savings and Loan League

to the

Pre-Summit

Meeting on Housing and Construction

September 12, 1974

Atlanta, Georgia

for the United States to attack the inflation that continues to rage unchecked throughout the land.

It represents a chance for all Americans to cut through the morass of economic and political posturing that has accompanied the unacceptable increases in the price of just about everything.

And it offers a chance for our nation to return to an adherence to fundamentals experience and moderation in coping with the onsloughts our economy faces.

The President said it so simply, when he stated "we will all have to put our shoulders to the wheel" in a cooperative effort to deactivate the inflationary fuse.

Ever since the end of World War II, and up until the Arab oil embargo last year, our national economic policies have been pumped out of Washington on the basis that "we are Americans, and what we want we want now, today."

That policy must change--not in the sense of reducing the great standard of living enjoyed by most Americans, but rather to maintain that standard of living without necessarily seeking to enhance it during the difficult times that surely lie ahead for all of us.

We have, in a word, been profligate--and we are going to have to pay the piper.

What is critical, however, is that we recognize that we should start paying today. Let's not go deeper into debt, leaving an even greater and perhaps impossible payment to succeeding generations.

No one questions our ability to marshall the assets, technology, manpower, and capital to solve our economic problems. However the solutions to these problems and others facing us today are going to require patience and moderation by all sectors of society--government, business, labor, and consumer.

The economic evils facing the United States are all too evident: inflation; record interest rates; depressed housing starts; disintermediation; serious internation economic and financial concerns; recycling of Arab oil revenues; the probability of

double digit wage increase settlements that will fuel even greater price increases than have already been seen, and a host of other matters of deep and serious concern--all part of the now dismal economic scenario.

We must come to grips with these problems in a direct, forceful way that will show the entire World that the United States can still muster the courage to do what must be done.

This is not to say that some sectors of the economy should not have access to tourniquets during the difficult days that are ahead. The elderly, the handicapped, the poor, and others, are going to continue to need special assistance--and Federal policies need to take these into consideration while mapping a tough, inflation-killing economic program.

Above all, Americans must--and can--be made to realize that we cannot have everything we want at the instant we want it.

And politicians shouldn't offer false hopes by promising that we can.

The World is no longer the United States' oyster. The interrelationship and interdependency of the world economies was brought home to us in an ominous and dreadful manner last October when the Arab oil embargo went into effect.

And regardless of whether the actions of the Arab oil exporting countries were activated solely by price objectives or motivated by politically hoped for realignment of Israel-held Arab geography, the results of their actions hit home hard. Every American understands the consequences of the Arab action. We were made to understand it every month as our winter heating bills escalated as never before.

But it is this very recognition on the part of the American people that gives this summit conference its optimum chance for success.

The people of the United States are tired of inflation. The are tired of having their wages and their savings eaten away by constantly rising prices. They are tired of having to run hard just to stay even. And they are tired of losing that

What it means is that the Federal Government--the Executive and Legislative branches--have an unparalleled opportunity to provide the economic leadership to the nation that has been absent for so long, largely because political pressures have consistently held the upper hand.

Politics must be cast aside today, if the United States is to overcome the virulent inflation we face.

Posturing about inflation by legislators on the floors of Congress, or by the President on prime time television won't do the trick--unless that posturing is accompanied by real action designed to bring our economy back to reality.

We have had a syndrome in the United States where some people think about retiring before they begin to work.

The Federal Government has aided and abetted the development of this syndrome, where people believe they are entitled to the benefits of our nation without first making a contribution to secure those benefits.

Astronomical budget deficits in the past five years represent a major factor in the inflationary equation. An unwillingness on the part of either the Administratic or the Congress to seek tax increases when needed is another factor. Maintaining overl restrictive monetary policies without any aid from the fiscal side rounds out the equation--and we have a spiraling inflation that won't quit.

The answers to the inflation dilemma are apparent. They are economic answers that unfortunately have been politicized. We have as a nation been living beyond our means--because there are more votes to be had if you feed the avarice of people.

But this is in reality cruel and unusual punishment, because it only delays the ultimate payment date. For the United States, the payment is now due.

We must balance our Federal budget. The Administration must propose and the Congress must agree to a reduction in Federal spending so as to accomplish this.

This single action will do more to help our national fight against inflation than any wage or price control could ever do.

We recommend spending be reduced to a level of $290 to $295 billion, with all sectors of the economy sharing equally in the reductions. If this is a national effort, everyone has got to participate. There should be little room for special pleaders in a war against inflation.

We recommend further that the seven per cent investment tax credit be adjusted so as to be made available only on a selective basis to those industries where shortages exist. In industries where there are no shortages the taxpayer should not have to subsidize investment purchases of individual companies.

We recommend against a tax increase at this time because we do not feel it is needed. While there has been a call by some for a general tax increase or tax surcharge, we feel this could move the nation headlong into a deep recession, or worse.

Two reasons exist for calling for a tax increase: 1) to raise additional revenues in order to pay the Government's bills, and 2) to restrain demand.

In the first instance, if we reduce Federal spending by $10 to $15 billion, we will retain sufficient revenues to have a balanced budget. In the second instance, demand simply doesn't need to be restrained today. Both retail sales and the Industria Production Index, when figured on a real basis--with inflation taken out--are down. Consumers, unlike our Government, are restraining themselves.

While urging no increase in taxes at this time, we do believe a mechanism shoul be developed to produce a tax increase quickly if it becomes necessary. A three year delay in asking for a tax increase to help pay for the War in Vietnam helped to fuel the inflation we have today. We must not let political factors take precedence over the lifeblood of our economy in the future.

We believe a tax program can be developed by the Executive and Legislative branches of Government, and placed on the shelf so that if demand does get out of line in the future, a tax increase can be implemented immediately.

To keep tabs on such demand, we recommend extending the wage-price monitoring concept to the tax area.

There is, of course, no instant tonic to be taken to cure inflation. President

Ford has already said this, and it is true.

But the economic summit gives the nation the opportunity to develop a concensus for the people. Once that concensus is developed, it is to be hoped that the Government will move speedily to carry it out.

While the battle to eliminate what has become a built-in inflation in our economy is on-going, there must be tandem policies effected to insure that certain segments of the economy are not crippled.

It has been an economic fact of life that each time inflation hits our nation hard, and monetary policy is left alone to fight the battle, housing is hurt disproportionately to almost every other economic sector.

Such is the case today.

Housing starts are very low and building permits offer the promise of an even lower level in the months ahead. Families have been priced out of the market by rising prices of building materials and increasing costs to finance housing.

Homebuilders in many parts of the country have had to drastically curtail, if not shut down completely, their operations. Financial institutions that provide the bulk of funds for home finance have been hard pressed to continue their home lending operations because money has been flowing out of their institutions and into higher yielding securities. The consequence of this--a direct reflection of the runaway inflation in the nation--is that those families which can afford to purchase homes are paying record high prices and record high interest rates for those homes.

Earlier in this paper we talked of tourniquets that need to be applied in some areas of the economy, in order to keep those areas functioning while the inflationary battle is being fought. Housing and home finance is one such area where such a tourniquet is needed.

Housing is a basic need of the people, but it is a need which cannot be filled while double digit inflation persists.

We believe the Government should adopt certain policies that are designed to bring funds back into the housing field, so that this basic need of the people can be

Today, savings at thrift institutions--which represents the foundation for all home financing in the country--is at an ebb. Individuals are seeking alternative investments to take advantage of the inflation existing today. At the same time, because home mortgage lenders during the past 40 years have been making long term housing credit available at fixed rates, thrift institutions do not earn enough to compete for savings funds against alternative investments, such as Treasury securities and Federal agency obligations.

We believe the saver can be provided with an added incentive to place his funds in institutions that will use that money to finance housing, and we recommend a tax incentive for savings of individuals.

We believe the first $1,000 in interest earned on savings accounts should be tax exempt so that savers can effect a higher return on their savings. While there is an obvious cost to the Treasury in this, the increase in housing starts that will be realized--and the collateral earnings increase to housing and home financing institutions--will more than compensate the Treasury for this tax incentive.

And it will serve to provide for a basic need of the people.

We recommend, too, a nationwide program of variable rate mortgage loans, with strong consumer safeguards, that will permit home financing institutions to better tailor savings costs to mortgage terms.

The value of a Federal system of thrift institutions was recognized, under the auspices of Congressional edicts, some 40 years ago. Savings and loan associations were then developed under a Federal program where they would operate, for profit, with the basic spread coming from the rate charged on home loans and the rate paid for savings.

This works fine in an economy that does not have rampant, ongoing inflation. It doesn't work very well in the double-digit inflationary environment we are living through today.

Quite obviously, if the cost of money to thrift institutions rises to levels we see today, the charges for home mortgage loans have to rise to a level above that

Today, however, only half of the equation is free to change. Individuals are free to seek the highest yield for their funds, but institutions that finance homes are forced to do so under tight restrictions at the State and Federal level.

The consequence of this policy is that thrift institutions are today facing an earnings squeeze of monumental proportion.

To overcome this problem, a nationally-recognized variable rate loan program must be implemented, with regulations developed by the Federal Home Loan Bank Board, so that when interest rates are moving up or down, both savers and borrowers will be affected by that movement.

It is clear that so long as we face double digit inflation, the long term fixed rate mortgage loan must give way to a variable rate loan. To ignore this is to reject the needs of borrowers during times like today, when only the affluent can afford the huge downpayments and big monthly payments that must be charged.

We urge that draft regulations to effect variable rate mortgage loans, as promulgated by the Federal Home Loan Bank Board, be put into effect as soon as possible.

We recommend, too, that legislation now pending in the Congress to increase to $50,000 deposit insurance at banks and thrift institutions be enacted promptly.

Insurance of accounts, which today is limited to $20,000, is a major factor in the savings of individuals.

Individuals know, for instance, if they invest their funds in Treasury bills, notes, or bonds, that every dollar is guaranteed by the U.S. Government. Yet, when they place their funds in savings accounts, that insurance is only $20,000.

An increase in this insurance amount to $50,000, which will not produce any appreciable increase in exposure to either the Federal Deposit Insurance Corp. or the Federal Savings and Loan Insurance Corp., will generate additional savings in institutions--and in the case of S&Ls all of this money will find its way into the now-depressed housing sector.

Another important recommendation, aimed at keeping money in those institu which invest primarily in housing, is to retain and strengthen interest rate contr over banks and thrift institutions.

In 1966 the Congress recognized the serious problem facing the housing an home financing markets. Tight money, as today, had crippled homebuilding as thri institutions were unable to compete for savings funds against a commercial bankin industry that was outbidding them. Banks, during periods of tight money and very high short term rates, have always been able to produce a higher portfolio yield thrift institutions which are tied mainly to housing investments.

This was plain in 1966, and it is plain today.

Because of the clear advantage banks have over thrifts on the investment they are naturally in a better position to bid higher for funds. The result, in money periods, is that housing lenders--mainly savings and loan associations--los money while banks increase their funds. When this occurs, of course, housing sta and building permits fall, mortgage interest rates increase, and prospective home are foreclosed from purchasing a home.

Congress, in 1966, sought to change this picture by providing rate contro authority to the financial institution regulatory agencies. Tied to this authori was an historical differential in favor of housing lenders of one half of one per

This, along with other developments over the years, has helped substantia moderate the feast and famine conditions in the home financing market.

Today, however, a concerted drive has been made to eliminate this importa element of a smoother working mortgage market.

Among other things, the half per cent differential has been cut to one qu per cent; a proposal is pending to eliminate the controls over a five and one hal year period; Treasury notes are being issued in low denominations that effectivel draw funds away from housing lenders, and new debt of bank holding companies, whi debt is very similar to a savings certificate of deposit, have all served to weak

the effect of rate control.

We urge that such rate control not only be left intact--so that funds for housing will be augmented rather than discouraged--but we recommend it be strengthened as well.

We believe the regulatory agencies should have authority to control the debt of bank holding companies, when such debt clearly becomes indisinguishable from certificates of deposit.

We further recommend that Treasury and other Federal agency obligations be issued in denominations of at least $10,000 so that private financial institutions are not forced into direct competition for their basic commodity--money--with the Federal Government.

In this connection, we recommend thrift institutions be permitted to offer a new type of certificate of deposit that would bear interest at one per cent above the prevailing certificate limit, which is presently at 7½ per cent, but with the interest on that additional one per cent to be deferred until maturity of the CD.

Again, if housing is to secure the funds so sorely needed to meet the demands of the people, incentives to save in institutions that make home loans must be provided. A higher rate certificate for thrift institutions, with some of the interest deferred, would aid substantially in this effort.

Likewise, a change in Treasury Department policy to permit tax and loan accounts to be deposited with thrift institutions would also help to apply a needed tourniquet to the home financing markets.

Today, tax and loan accounts are deposited exclusively and at no interest cost in commercial banks. This represents billions of dollars each year in interest-free deposits to the banks. Thrift institutions, which invest their funds in the housing sector, are denied access to any of these funds--an arbitrary and discriminatory action that, if changed, could help provide additional housing, and could do so immediately.

For the long range, we recommend prompt enactment of the proposals in

the financial institution reform legislation that seek to broaden the investment powers of thrift institutions.

We urge rejection of the proposal in that legislation that would eliminate rate control--and we have stated earlier our reasons for this rejection. Likewise we urge rejection at this time of the tax proposals in that legislation; not because we oppose the concept, but merely because too many unanswered questions remain with respect to the proposed tax credit for housing investment.

A number of studies are underway today to answer those questions on the tax credit, and we urge Congress hold up on such a major change in the tax formula for housing lenders until these studies are completed and the findings known.

The remainder of the financial reform proposal, however, would represent a major step forward in providing thrift institutions with the tools necessary to become full family financial centers--and to accommodate the financing needs of families in all economic cycles.

Checking account services, access to electronic funds transfer systems, consumer loan authority, authority for Federal chartering of capital stock savings and loan associations, all of which are contained in the financial institution reform legislation, are aimed at enabling thrift institutions to do a better job for their customers, and we urge Congress to adopt these liberalizing proposals.

While these long term proposals are being weighed by the Congress, however, and until they are enacted and take hold within thrift institutuions, there still exists the basic problem created by inflation for housing: that is, interest rates on home loans for the most part are not keeping pace with competing investment yields.

This is particularly acute in those States where usury statutes are far behind the current economic picture. In these states, home mortgage money is simply nonexistent.

While usury ceilings on home mortgages are intended to help consumers, in most instances they have served only to deny them access to funds.

In those states where usury ceilings are still below 10 per cent, housing rs are naturally looking elsewhere to place their funds. This is mandated by the l high rates these lenders must pay to secure money in the first instance.

In some States, FHA and VA loans are exempted from usury ceilings, but in States no such exemption exists. Conventional home loans are subject to State usury ngs nationwide. The overall impact of the usury ceilings is to cut sharply into vailable supply of mortgage funds in many areas.

What is needed is an exemption from State usury ceilings for all Federally ed mortgage loans, so that lenders can effectively use what funds are available using until inflation is brought under control.

It certainly cannot be in the public interest to deny housing funds to citizens se States with low usury ceilings, and we urge the Administration to sponsor and ngress to enact legislation to exempt from usury ceilings all Federally related ge loans.

The recommendations of the National Savings and Loan League to the Economic Conference are intended to strike at inflation in two ways:

* To insure the economy, via balanced monetary and fiscal policies, functions future on an even keel.

* To provide short and long range answers to the particular problems facing using and home finance markets.

In all of its recommendations, the National Savings and Loan League believes blic interest must be served above that of any political party or that of any l interest group. Housing, we believe, as being a basic need of all the people, e allowed to function in as normal a fashion as is possible during the time it to bring inflation under control. Hence, while some recommendations do indeed sent special interest, we believe the public interest is best served by maintaining er for the people at affordable levels through programs that do not interfere the all important effort to bring inflation under control for all time.

NATIONAL SAVINGS AND LOAN LEAGUE

RECOMMENDATIONS TO THE PRE-SUMMIT MEETING ON HOUSING AND CONSTRUCTION

To bring inflation under control

1 - Balance the Federal Budget and effect a Federal spending limit of $290 to $295 billion.

2 - Use the 7 per cent investment tax credit on a selective basis, so as to promote investment only in industries where shortages exist.

3 - Extend wage-price monitoring concept to the tax area, to keep constant watch over demand pressures. At the same time, develop mechanism in Congress and the Administration to enact a tax increase speedily, if such an increase becomes necessary.

To aid housing, home finance markets--short and long range solutions

1 - Exempt from taxation the first $1,000 in interest or dividends earned from savings accounts.

2 - Provide mechansim at the Federal level for variable rate mortgage loans.

3 - Increase savings deposit insurance to $50,000.

4 - Retain dividend and interest rate control authority, and stengthen such authority for debt of bank holding companies.

5 - Enact financial institution reform legislation, but eliminate proposals dealing with rate control and taxation from such legislation.

6 - Provide for a new, higher rate CD for thrift institutions, with part of the interest on the certificate deferred until maturity.

7 - Treasury deposits of tax and loan accounts should be made in thrift institutions as well as in commercial banks.

8 - Treasury obligations should be issued in denominations no lower than $10,000.

9 - Enact legislation exempting all Federally related mortgage loans from State usury ceilings.

Proposed By
Mortgage Insurance Companies of America
Max H. Karl, President

TO PROVIDE EMERGENCY RELIEF FOR HOUSING

Submitted by
Max H. Karl
President, Mortgage Insurance Companies of America

The United States is a nation of individual home owners. Over 60% of all families own their own homes. High interest rates on home mortgages coupled with double digit inflation now threaten to:

(1) Deprive the coming generation of Americans of the right to home ownership.

(2) Undermine the present shelter standards of this nation.

(3) Destroy the housing industry with its job-creating ability.

(4) Cripple mortgage finance institutions.

In addition, the capacity of the housing market to cushion a declining economy and lead it in the next upturn is likely to be lost.

Signs of the Current Crisis in Home Financing:

(1) The number of dollars available for home financing is totally inadequate.

(2) Where money is available it is too expensive. Millions of potential homebuyers are being priced out of the market.

(3) The loss of savings dollars to government bonds, corporate bonds and money market instruments, disintermediation, is threatening the existence of savings institutions.

(4) Savings institutions, feeling the drain of their lowest rate (5% - 5¼%) funds and pressures on earnings, shun making home financing available at reasonable rates.

(5) Ways must be found to reduce the cost of mortgage money and to insulate housing and the homebuyer from the money market and its present high rates.

Passbook Savings Accounts Key To Low Cost Housing Funds: Passbook savings accounts, insured by FSLIC at savings and loan associations and by FDIC at mutual savings banks, aggregate approximately $150 billion. The yield of 5¼% is tightly controlled by Regulation Q. Such a rate of return is obviously not competitive in the money market today with Treasury offerings returning almost twice that amount to small investors. In addition, various other debt offerings by financial institutions and large corporations provide the investor with such attractive yields, up to 10% and 11%, that there is little economic justification for the saver to continue his account at the thrift institutions. As a consequence, the passbook savings outflow is mounting sharply and threatens the very existence of savings institutions. The result is a crisis in home financing, for passbook accounts have been the single most important source of low cost funds for homebuyers.

A PROPOSED SOLUTION: An Emergency Passbook Savings Incentive Program: We propose as an emergency measure a tax incentive be offered to savers and investors who will make funds available to home financing institutions at low rates. Specifically, the lowest rate passbook accounts (e.g. 5% at commercial banks and 5¼% at savings and loans) should be free from both federal and state taxes. Any institution committing to invest these funds and/or a specific portion of their savings funds in new home mortgages could offer the insured tax free accounts. Institutional investors could also qualify as depositors. This would provide for the first time an attractive day-of-deposit to day-of-withdrawal tax free incentive account with full flexibility as to amount to the small, medium and large savers, individual and institutional. It would raise the effective rate of return by 20% to 50% without raising the cost of home mortgage money. It could stimulate new levels of low cost savings. While corporate institutional investors would get the equivalent of a pre-tax 10½% of return, a higher yield is available today in municipal bonds and select preferred stocks.

The benefits of such a program are set forth below:

(1) Plan will increase total savings and fight inflation. Funds will flow to all size institutions and to local institutions across the nation.

(2) Plan will increase homebuilding and the availability of lower cost home financing funds.

(3) Plan will give passbook savers a higher yield without requiring mortgage borrowers to pay more.

(4) Plan will reduce the average cost of funds for mortgages at savings institutions, alleviating their squeeze on earnings.

(5) Plan will not require funds from budget of U.S. Government. Use of incentive is more efficient than subsidy to housing.

(6) Plan will stimulate housing starts, jobs and materials sales and generate more, not less, tax revenues.

The Loss in Revenue and Its Recovery: It would seem initially that the loss in tax revenue due to exclusion of interest paid on savings accounts from taxation would be irretrievable. The loss in tax revenue, we submit, is more than compensated for by the revenue gains due to the lower mortgage interest deduction accorded homebuyers, and the tax revenues gained from the newly stimulated housing activity. Assuming an average 25% tax bracket for savers, the tax loss on the $12.5 billion in interest on an estimated $250 billion in savings accounts at all institutions would be $3.1 billion. What would happen to mortgage rates following a strong inflow of low rate savings? An ample supply of savings would inevitably reduce the rate charged borrowers from the 10% to 10 3/4% level of today to 8% to 8 3/4%. Reducing the interest deduction by 2% for borrowers of $80 billion, the home mortgages written in a typical year, produces a tax recovery of $400 million a year. However, a lower mortgage interest deduction is not the major item of recovery. Tax revenues stimulated by renewed housing activity would run many times above $400 million and by themselves make up the savings incentive revenue loss.

Authoritative demographic studies indicate that household formations in the 25 to 34 age group will increase by over 50% in this decade. To house these new families will require from 2.3 to 2.5 million housing starts per year as a minimum annual output. Seen in this context, the current level of 1.3 million starts is a catastrophic development for this most important segment of the home buying public. It severely diminishes the availability of home ownership for all prospective homebuyers, and threatens to destroy a building industry which has been throughout most of this century a catalyst in restoring our economy from recession to prosperity. A substantial infusion of capital into the thrift institutions would restore the housing economy to a level where it could meet minimum demands considered essential for our growing population.

An additional one million housing starts involve $35 billion in production. Furthermore, it has been demonstrated that every new dollar spent on housing will generate an additional dollar in contribution to the GNP. This occurs because of the spending by construction workers, material producers and those engaged in related areas, such as furniture, appliances, carpeting, land sales and the sale of existing homes.

According to studies, in the 1960's, by Miles Colean and R. J. Saulnier, each dollar invested in new housing, due to the multiplier effect, would produce $2 of gross national product. The production of 100,000 new houses (assuming an average value of $35,000 per unit) would create a product of $3.5 billion and with a multiplier effect of 100%, a total GNP gain of $7.0 billion. Colean and Saulnier state it is customary to use an 18% rate of total product value to estimate the resultant federal, personal and corporate tax revenues. Using their figure, each 100,000 new housing starts would generate federal tax revenues of $1.26 billion. Thus, the construction of approximately 250,000 housing units would produce new revenues equal to the loss on the savings incentive program ($1.26 billion times 2.5 equals $3.15 billion). We believe the savings incentive will stimulate well above 250,000 units. In addition, for every $2 of federal taxes, there is $1 of state and local revenues.

home mortgage rates are likely to rise to 13% to 15%. Thrift institutions however, would not survive long, for the rate on all savings would suddenly move to 9% and above.

With mortgage portfolios presently yielding around 7%, savings institutions would not be solvent. The conclusion is that, other than massive direct federal subsidies, there are no practical alternatives. Tax-exempt savings accounts are essential for the survival of thrift institutions and the housing economy.

Mortgage Insurance Companies of America

Max H. Karl, President

Executive Summary of Papers
Prepared by Max H. Karl
President, Mortgage Insurance Companies of America

The United States is a nation of individual homeowners. Over 60% of all families own their own homes. High interest rates on home mortgages coupled with double digit inflation now threaten to:

--- Deprive the coming generation of Americans of the right to homeownership.

--- Undermine the present shelter standards of this nation.

--- Destroy the housing industry with its job-creating ability.

--- Cripple mortgage finance institutions.

In addition, the capacity of the housing market to cushion a declining economy and lead it in the next upturn is likely to be lost.

The effect of inflation on the housing industry is already evident. More than 1600 construction firms have ceased operations; a considerable number of mortgage banking firms have gone bankrupt; and virtually the entire lending industry is confronted by a liquidity squeeze that threatens its very future.

The effect of inflation on a homebuyer is dramatized by the substantial increase in the past year in family income needed to buy the typical home. The combination of cost inflation and higher interest rates require a homebuyer to have $4,365 or 37% more income today to buy the same house as a year ago.

1) A more balanced approach in the tools to fight inflation with a lesser reliance on monetary policy and high interest rates.

2) Additional support for housing through the FHLMC and the FHLB systems.

3) An increase from $20,000 to $50,000 in the insured limits under FSLIC and FDIC.

4) Federal resolution of the state usury law problem.

In the longer term, we propose an emergency tax incentive be offered savers and investors to make funds available to home financing institutions at lower rates. Specifically, the lowest rate passbook accounts (e.g. 5% at commercial banks and 5 1/4% at savings and loans) should be free from both federal and state taxes. Any institution committing to invest a reasonable portion of these funds in new home mortgages could offer the insured tax free accounts. Institutional investors would qualify as depositors as well. They could provide immediate relief through massive investments. The program would raise the effective rate of return to savers by 20% to 50% without raising the cost basis of home mortgage money. It could stimulate new levels of low cost mortgage funds, increase total savings and fight inflation by encouraging thrift. There would be no loss of revenue to the Federal Treasury because of the added activity in homebuilding and related businesses.

Memorandum Prepared for
Housing and Construction Conference on Inflation
September 12, 1974
Atlanta, Georgia

Submitted by
Max H. Karl
President, Mortgage Insurance Companies of America

Inflation and Housing, A Short and A Long View

The unfortunate metamorphosis affecting the national housing scene during the past six months has had few better witnesses than the managers of mortgage insurance companies, which have insured $31 billion of home loans in their brief history. The emergence of such volatile forces as changes in the availability and price of money, disintermediation, escalation of construction costs, and the energy crisis, are quickly reflected in both the volume and character of business activity presented to his company. What's more, because the bulk of a mortgage insurer's business stems from the low downpayment, middle income buyer of both new and existing homes in urban as well as suburban and rural locales, the changing scene that the manager views is a foreboding one indeed.

A Short View: Housing and residential financing have been the principal victims of the money crunch and high interest rates, which this nation experienced in the early stages of its battle against its number one economic problem: inflation. Consider the following statistics:

Indicators of Status of Housing and Home Financing

	July 1973	Jan. 1974	July 1974	% Chang 6 Mo.	12
ousing Starts	2152	1464	1335	- 9%	-3
ermits Issued	1814	1354	1043	-23%	-4
(Seasonally Adjusted Annual Rate, 000's omitted)					
et Savings Flow (millions):					
Savings & Loan	$-198	$2181	$-488	Neg.	-14
Mutual Savings Banks	$-412	$ 257	$-500	Neg.	- 2
ost of Savings Funds to S & L's[a]					
Passbook	4.97%	5.23%	5.23%	---	+ 5
Certificate	5.91%	6.12%	6.45%	+5.4%	+9
ffective Mortgage Interest Rates:					
Conventional Loans	7.83%	8.40%	8.85%[b]	+5.4%	+1
FHA/VA Loans	7.81%	8.99%	9.21%[b]	+2.4%	+1
utstanding Conventional Loan Commitments (millions)	$13,710	$9,788	$19,992	+105%	+4
NMA Average Auction Yields (Gross):					
Conventional	8.674%	8.774%	9.898%	+12.8%	+1
FHA/VA	8.38	8.706%	9.895%	+13.8%	$1
elinquency Rates:					
Conventional	2.22%	2.57%	2.55%	-1.0%	+15
FHA	3.92%	5.09%	4.25%	-16.6%	+ 8
II Industry Applications Received:	58,580	----	38,300	---	-34
	Data on Insured Loans (MGIC)				
vg. Home Sales Price	$28,204	$30,713	$32,305	+ 5%	+15
vg. Mtg. Loan	$25,538	$27,410	$28,506	+ 4%	+12
vg. Contract Rate	8.10%	8.63%	8.94%	+ 4%	+10

[a] Figures are for Mar. 1973, Sept. 1973 and Mar. 1974, respectively.
Source: FHLB

[b] Figures are for June, 1974

[c] Figures are for Mar. 31, 1974

One can also see how inflation has stunted residential financing by looking at the mortgage insurance companies alone. During the first half of 1974, volume within this industry was roughly 30% to 35% below the year ago level. The fact that mortgage lenders continue to make loans with as little as 5% down in the face of record money costs is a tribute to their commitment to the home buying public, realtors and builders.

Pressures to depress housing activity are to be expected in any battle against inflation. Spending for housing, however, can be constrained for short periods only. Care must be taken to assure that pressures to achieve short-range objectives do not become so severe as to destroy an entire industry and leave a vacuum that, in the long run, will cost our society dearly.

If exclusive reliance is placed on Federal Reserve tight money policy to stem the inflation tide, the pressures on home building and housing sales will prove excessively severe. No one sector of the economy should be called on to bear so much of the burden, especially when there is little evidence that the decline of the housing industry is doing anything to ease inflation. What the current remedies are doing is destroying the fabric of one of the nation's essential industries. During the past year, more than 1,600 construction firms have withdrawn from the business. A significant number of mortgage banking organizations have gone bankrupt, and many others have opted to withdraw from residential financing entirely. Banks have closed their mortgage loan windows. Construction workers, skilled in residential building, find themselves unemployed, and with little prospect of re-employment. This withdrawal of human, managerial and capital resources from the area of residential construction is a cause for real concern, not only in the short run, but in the long run as well. Current economic policy is destroying the capacity of the housing industry during times of recession to serve as a built-in stabilizer, and lead any economic upturn into a healthy recovery. If government authorities attempt to stimulate the economy by stimulating housing, they are likely to find that the machinery has been so dismantled that it will not be able to respond.

Concern for the housing industry, its employment rolls and managerial skills, serious as it is, is outweighed by our concern for the plight of homebuyers. To demonstrate the effect inflation and high interest rates have on the American homebuyer, look at the average price of a home insured by my company. One year ago the purchase price was $28,204. The 1973 loan was made at an interest rate of 8% and a 30-year term. An annual income of $11,800 was needed to qualify for that loan with 5% downpayment. Today, that same house is priced at $32,300 and interest rates are at 10% to 10 3/4%. At a 10% interest rate an income of $16,165 is needed to qualify for that same 95% loan. This is an increase of $4,365 or 37%. Inflation has excluded millions of families from the housing market during the past year.

An additional major challenge for potential homebuyers has been finding available mortgage money whatever the rate. If it were not for the special programs of the Federal Government, specifically those of the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank System, it is extremely unlikely that very many families requiring a high rate mortgage would have found any money at all. Such programs should be continued. The use of savings associations as the conduit for the government funds just cited is a landmark event. Over 1,000 thrift institutions participated in the FHLMC and FHLB programs. The use of an in-place private system, with its own incentives to deliver mortgage money, is to be applauded. It is both effective and efficient. It has assured that funds would reach practically every local real estate market in the nation, big cities and small. Given the tendency to focus on the national scene, one should keep in mind that real estate markets and mortgage markets are, in the final analysis, local markets. By using mortgage lending institutions with knowledge of local demand and markets, local relationships with builders and realtors, and the underwriting oversight of private mortgage insurers, the FHLMC and FHLB programs can effectively serve housing markets across the nation. Underwriting loan standards can be tailored to local conditions. Government does not have to bear the burden of creating new agencies or bureaucracies. It is recommended further relief for housing use this delivery mechanism.

<u>A Longer View</u>: The concern of most housing analysts at the moment is on the short run. We submit that there is perhaps even greater cause for concern about housing and residential financing in the long run. Americans are a nation of homeowners. Over 60% of households own their own homes. Those properties represent, for many people, a major portion of their total wealth. In addition, Americans are a highly mobile society, with the average family moving every five years. The values to our society flowing from individual home ownership are more than economic. They go back to the freedoms associated with the founding of this nation. Such values will not be able to be maintained unless adequate funds are available to finance home ownership at economical rates.

Throughout most of our nation's history, home ownership has been favored -- sheltered in one way or another from the general money market. In each era we tailored special programs encouraging homeownership to the needs of our people, from the agricultural homestead acts, to the founding of building and loan associations, to FHA-VA programs. In the final quarter of the 20th century, we face a new and ubiquitous challenge -- how to finance homeownership in an inflation-ridden environment with the prospect of continued high long-term interest rates.

We all recognize that this nation must build 2 1/2 million new housing units per year for the next ten years just to keep up with housing needs. This will take sizable amounts of capital. During this same period, American corporations will demand great amounts of new capital to produce basic materials and to give us energy independence. Economists at General Electric estimate that $4 trillion in new funds will be needed between now and 1985 to finance corporate capital needs. The chairman of Chrysler has stated $2 trillion of new equity money will be required in the same decade. Such demands in the face of a world-wide shortage of long-term capital means higher money costs. For homeowners, two key questions emerge: Can the individual homeowner compete for funds in the general money market with large corporations and governments? Should he or she so compete? Our reply is a double "NO".

The pressures to require potential homeowners to compete directly with the largest corporations and the federal government evident in the philosophy of the Hunt Report and elsewhere threaten our heritage. The prospect of 10% to 15% mortgage rates is not only totally incompatible with a goal of broad home ownership, but also is likely to preclude building of individual shelter units and jeopardize the present value and re-salability of the nation's entire single family housing stock.

Economics may dictate 10% to 12% mortgage rates, but man must intervene. A political economic decision is required here. The challenge is to find lower cost money and to channel it into mortgages. The way to do that, we believe, is through the use of specific, new tax incentives. We propose a special savings incentive in the form of a tax free privilege, to be accorded to all depositors in 5% and 5 1/4% passbook accounts at thrift institutions and commercial banks. Such a program would provide a new incentive for the average American to save, thereby drawing money into the lowest rate thrift accounts. Such funds can absorb the full administrative cost burden of mortgage financing and still be made available to homebuyers at 8% or less. The passbook savings incentive program would prevent the "marking-up" of federal taxes into the cost of mortgage money. It would give savers more, without raising the cost of mortgage money to homebuyers. The accompanying paper discusses the benefits of our proposal more fully.

In addition, we recommend the Administration adopt programs which would have significant benefit to the home buying public and the nation's housing progress. Foremost among those recommendations are:

1. A commitment on behalf of the Federal Government to employ a broader range of tools to combat the inflation that wracks our economy. Anti-inflation efforts should not be confined to a restrictive monetary policy, as currently is the case.

3. Additional government support for the housing industry should be made available through the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank system. As referred to earlier, these programs have demonstrated their extreme value in contributing to the goals of providing housing for American families.

4. Federal resolution of the debilitating effect of state usury laws on mortgage fund flows.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Executive Summary

The main points made in the attached paper are:

1. Closer control of the Federal budget is necessary with a target for 1976 of a significant surplus.

2. Monetary policy should be eased somewhat from its present posture.

3. We assume that the Government is continuing to give a high priority to defense, social and welfare programs and housing.

4. Insofar as tax structure is concerned, the granting of tax incentives or other reductions in taxes should be avoided, unless there is an obvious and substantial benefit. It also may be prudent to review whether or not an excess profits tax should be imposed to recapture windfall gains accruing to certain sectors.

5. In the international sphere, a policy should be followed to reduce drains on U. S. capital markets.

6. While Government regulations in housing may not be contributing to inflation of the present type, it may be well to seek uniformity in building and zoning codes, usury laws, foreclosure statutes, and property transfers.

7. Consideration should be given to GNMA tandem plan for conventional mortgages, GNMA insurance of mortgage-backed securities based on conventional mortgages and to broadening present tandem plans.

prices would be less objectionable except that the Government would be putting its credibility on the line.

9. We think that the tax incentive which would give a tax credit to investors in mortgages should be pursued as one means of improving the competitiveness of the mortgage market.

FNMA's Response to Questions in President Ford's Letter of August 30, 1974

I Fundamentals

It is our view that Federal expenditures should be limited as much as possible and held to under $300 billion in fiscal 1975.

In addition, we would favor a surplus in fiscal 1976 on a unified budget basis. The present budget implies a deficit of $15 billion, using the former Administrative budget concept. We think that a surplus on a unified basis could be achieved by limiting the growth in expenditures and by resisting the development of new programs.

We assume that the Government gives a high priority to defense, social and welfare programs and housing. We endorse these priorities. In dealing with housing, we recognize that in the present situation, we cannot expect a return to a 2.4 million rate of housing starts. Judicious broadening of present programs, however, can avoid a decline to catastrophically low rates of starts. We would prefer to see programs that attempted to keep housing starts at least in a range of 1.7 million units at an annual rate.

There are a multitude of suggestions for reducing, modifying, or limiting federal taxation.

In the present context, we would hesitate to recommend any significant changes in the tax structure if they were to result in measurably lower revenues. In doing so, we recognize that there may be a few areas in which some technical changes or modest tax relief may have great benefits. We also would recommend that consideration be given to imposition of an excess profits tax to recapture windfall gains resulting from shortages in various sectors of internationally traded raw materials.

Insofar as monetary policy is concerned, it is quite clear that a firm monetary policy is desirable. However, that policy ought to be directed at limiting undue growth in demand. We have felt for some time that monetary policy has been too stringent and has had as a goal the correction of the inflation resulting from the escalation of prices for petroleum, other internationally traded raw materials and agricultural products. We do not think that this is a proper or effective role for monetary policy. Fortunately, there has been some easing in monetary policy recently, and some moderate further easing to permit at least a 4 percent rate of growth in the money supply would appear to be advisable.

In the international sphere, policies ought to be avoided which cause further drains on our capital markets. In this connection, it may be desirable to review and reinstitute the investment tax credit. Since its elimination this spring, loans to foreigners have increased very sharply and have helped to deteriorate our balance of payments. Reconsideration

and the rest of the world was in difficulty. These conditions no longer apply. In addition, appropriate steps by the Government to encourage foreign investment in the United States would help our balance of payments and the drains on our financial and material resources.

Patterns of consumption are debated from various aspects almost continuously. Except for the fact that heavy spending on consumer durable goods financed by large increases in consumer credit may contribute to inflation, we do not see any practical benefits in trying to rearrange consumption patterns. It has been suggested and we recommend for consideration the reinstitution of controls on consumer credit.

II Specific Recommendations for the Housing and Construction Sector

The effect on productivity of Government regulations is probably a subject for serious consideration. For the most part, we do not think it has a bearing on the current inflation, even though we are certain that it adds to housing costs.

The lack of uniformity and flexibility in building and zoning codes has priced most housing out of the reach of average American families.

One way to deal with these problems would be to redraw such codes uniformly to allow the housing industry to seek cost reductions in moderate-income residential construction and operation through better organization and utilization of living space, while still retaining good livability and individual privacy. The progressive upgrading of building standards, in other words, has deprived many families of suitable housing. Without national standardized codes, the necessary cost efficiencies of mass-produced housing cannot be attained. Forum I, sponsored by the Federal National Mortgage Association, has made a number of suggestions which would be useful in this area.

Usury laws have impeded the flow of capital to a good many areas. A federal usury law which preempted the field for Government-backed mortgages and for mortgages purchased by federally sponsored intermediaries or federal agencies would help alleviate the serious mortgage credit shortages in some areas. Also uniform transfer and foreclosure statutes would act to reduce closing costs on housing and the cost of protecting a lender's investment. These might make homeownership easier and the mortgage market more attractive.

In a broad sense, the availability of funds has been adequate. The difficulty has come in periods of either rapid economic expansion or inflation. It appears, therefore, that the best solution for increasing the availability of funds is a set of economic policies which leads to sustainable growth and, at worst, with only modest price increases.

This, of course, is an ideal solution. In the absence of such a solution, the availability of funds might be improved if the Government National Mortgage Association could guarantee packages of conventional mortgages for mortgage-backed securities. Also a Government National Mortgage Association tandem plan for conventional mortgages might be desirable. Of course, to assure the quality of the mortgages, they would need to be approved by organizations such as the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association.

Wage and price controls are very difficult instruments which can introduce distortions in markets. Particularly in the present environment, when we are in the midst of wage and price adjustments, their adoption would appear impractical. Nevertheless, this tool ought to be kept in mind for other environments, since it is possible to get wage/price results that are not consistent with the fiscal and monetary policies being followed. We should note, however, that in some circumstances, it might be necessary to consider rationing if the wage and price policies are to be successful.

There seems to be no objection to issuing guidelines, except that the credibility of the Government would be on the line. If various private groups resisted moral suasion, the Government might look inept.

Environmental protection requirements are an emotional subject. While there is considerable merit to protecting the environment, some proposals are highly unrealistic. More importantly from the view of housing,

what is needed is a mechanism for quick decisions and pragmatism in regulations. It would serve us poorly if we had ideal, but unattainable, environment requirements so that housing and other economic activity were greatly impeded.

As indicated in response to an earlier question, there are many suggestions for tax incentives or deterrents. Tax incentives need to be considered first in terms of the reality of the results that they would provide, and second, in terms of budget needs. At this time, we would endorse tax credit for investors in mortgages of the type proposed in the Financial Institutions Act, sponsored by the Administration, but we do want to make it clear that the discriminatory application of this tax incentive, as proposed in that Act, could impede the effectiveness of the Federal National Mortgage Association.

The principal areas that need attention involve the flow of mortgage money for homebuyers at rates which are within some range of reason and some recognition of the fact that builders and developers are facing money costs for interim financing which may cause many failures. We think these two areas should be given the most careful consideration.

Recommendations of the NATIONAL ASSOCIATION OF REALTORS®
Presented by President Joseph B. Doherty to the
President's Conference on Inflation
Atlanta, Georgia - September 12, 1974

I. Fundamentals.

One lesson of recent years is that the causes of this inflation are highly complex and defy simplistic solutions. It has also become abundantly clear that there are no exact policy prescriptions that guarantee an early end to the inflationary spiral. To achieve our goal of a gradual reduction in inflation, we must exercise patience and consider the full range of anti-inflationary policies at our disposal. Care must also be taken not to achieve price stability by exacting an awful toll in unemployment.

Maintaining federal expenditures below $300 billion in Fiscal 1975; Seeking a balanced federal budget or a surplus in fiscal 1976.

An important and long overdue first step is to initiate a strict limitation on overall federal expenditures. While somewhat lacking in elegance, an across-the-board spending reduction could be speedily and effectively carried out. A mandatory 5 per cent cutback affecting all departments of government could be phased in over a two-year period to reduce federal expenditures below $300 billion in fiscal 1975 and achieve a modest surplus in 1976. Government departments should be allowed some flexibility in determining what activities will be curtailed. Certainly some programs will ultimately have to be exempted from the rollback but these should be considered as special cases which offer compelling reasons for being excused from the belt-tightening process.

Priority preferences for existing governmental programs within the federal budget limitations.

Although housing has borne the brunt of much of the anti-inflationary policy to date, we fully expect the Department of Housing and Urban Development to bear its fair share of the cutback. For example, while we fully support the implementation of some experimental housing programs, these could be carried out on a more modest scale for the time being. Other projects and programs could also be held in abeyance until they are more completely researched and their budget impact is fully known. We support continued restraint in the use of production subsidies for lower income housing. While the new Section 8 leased public housing program has our support, we are willing to see its implementation somewhat scaled back or delayed, if necessary.

Current levels of federal taxation.

If we are serious about waging an effective war on inflation, then the often heard suggestions for a general revenue reduction are certainly inappropriate at this time. We would like to reserve judgment, however, on any proposals calling for a general increase in the level of federal taxes. Most families have already been hard hit by the accelerating cost of living. Forcing further retrenchment and hardship through additional taxes should be considered only as a measure of last resort.

er cent investment tax credit at a time when monetary authorities continue to ıcally curtail the availability of investment funds. Tax policy should be lied consistently in a counter-cyclical fashion to achieve stabilization.

Current monetary policy and its effect on interest rates.

The recommended reductions in government expenditures should be accompanied some easing in the availability and cost of credit. Certainly we have learned lesson, that excessive reliance upon monetary policy to bring an end to the flationary spiral is doomed to failure. Such policies mete out punishment a relatively few industries which are highly dependent on borrowed funds, ile inflationary demands are allowed to build and run rampant in other sectors the economy. The causes of inflation are deep-rooted and widespread and nand the balanced use of our anti-inflationary tools on a broad front so that l sectors of the economy will share equally in the belt-tightening that we face the days ahead.

Current patterns of consumption

High interest rates in particular, and climbing price levels in general, ve left an unmistakable impact on the pattern of consumer expenditures. For ny families, the list of available and affordable items has been drastically red. This curtailment of consumer choice has been most dramatically felt on using purchases which are critically dependent upon borrowed funds. The rrowing of consumer choice with respect to housing comes at a time when local ilding moratoriums, no-growth policy, and environmental considerations have duced somewhat the housing choices available to a family of average means, king it all the more essential that inflation be brought under control.

. Specific Recommendations for the Housing and Construction Sector

The central question before the housing portion of this conference - as posed to the larger questions of the sources of inflation — is how to stabilize e housing sector against inflationary cycles. The primary point to bear in nd throughout the discussion is that housing's instability arises from its lative unattractiveness as an investment. As credit becomes scarce, investors t their funds into fields with higher yields and greater liquidity than a ng-term mortgage. This inherent competitive disadvantage is in turn compounded our financial structure, which funds housing primarily through thrift institions which are restricted in their ability to adapt to rising interest rates.

The goal, then, in resolving both the present crisis and the long-term oblem will be to strengthen the ability of housing to compete for funds during shortage of credit.

The effect on productivity of government regulations (federal, state, local) and judicial rulings.

We interpret this question as a reference to the regulatory structure of the housing finance industry. That structure has undergone increasing criticism in recent years, as housing has suffered three severe recessions, and as housing finance has increasingly required federal assistance to offset its weakness in competing for credit.

REALTORS® believe that the housing market, despite its very great national importance, should not continue to ask for federal help in terms of funds and regulatory advantages without simultaneously facing the need to heal itself. We believe that great improvements can be made, with time, in the housing sector's ability to attract credit through some kind of financial restructuring, expansion of the secondary mortgage market, and innovative financing techniques. In addition, a system of tax incentives may be necessary to supplement these efforts when credit continues to be scarce. We hope that both the industry and the government will direct their sights to these long-range solutions so that the cyclical problem of housing market downturns may some day be eliminated.

At the same time, however, this conference faces an immediate problem which cannot be addressed through major, long-term change. Given the system we have, it is absolutely necessary to provide housing with remedial tools for staying afloat during a monetary crisis. Our recommendations are outlined below.

Availability of capital funds and money for financing.

Unquestionably the unavailability of credit is the key to the housing sector's problem with inflation. Inflation itself heats up competition for credit. Resulting monetary policies tighten the supply even further. Housing and other credit-sensitive sectors must cut back, bearing most of the burden of the inflationary fight.

Recommendation: Our central recommendation is for much greater reliance on fiscal restraint as a stabilization device. Fiscal policy is more precise and flexible than monetary policy, and can be applied selectively with consideration for pockets of hardship in the economy.

To the extent that aggregate restriction of the money supply must be utilized, it will be necessary to offset its disproportionate impact on housing, as described in II-5 and 6.

Wage and price controls, guidelines or private initiatives.

We believe in the essential efficiency of the market mechanism as a rationer of goods and credit and a setter of price. While this mechanism requires periodic supplementation in order to maintain a stable economy, we believe that the most efficient stabilization tools are fiscal and, to some extent, monetary policies which operate through the market and preserve as much as possible of its natural efficiency.

Recommendation: We oppose wage and price controls except as a last emergency :ingency, because of their artificial and arbitrary approach. On the other 1, we support active governmental efforts to encourage restraint among business labor groups. We feel that these kinds of "jawboning" techniques could be helpful in the construction industry, where both material prices and wage :eases have contributed to high annual price rises.

Environmental protection requirements.

This question, unlike most of the others, is aimed more at the cost of sing than the cost and availability of credit. While other conference :icipants are more expert than we in analyzing the former, we wish to offer eral observations.

Environmental safeguards clearly have some impact on housing costs. They :ease energy prices, for example, and reduce construction through processing ays, limits on sewer expansion, etc. These side effects have not generally 1 considered in the past when environmental controls have been introduced by Environmental Protection Agency and by states and localities. We believe : inflation costs should in the future be fully assessed and weighed against advantages of a clean environment along with the costs and benefits of ated needs for housing, energy production, job creation, etc. In some cases, nay be desirable to relax or defer environmental controls on a selective and porary basis to ease pressures on prices.

We do not believe, however, that massive reductions in environmental eguards would be either effective or desirable as a major solution to lation in the housing sector.

Tax incentives or deterrents.

As explained above, housing suffers from inherent disadvantage in competing scarce credit. This disadvantage can be offset through tax incentives for estment in housing. Particularly if we continue our heavy reliance on monetary icy, it is essential that offsetting measures be taken to pump money into the dit-sensitive housing sector.

Recommendation: We support the initiation of an investment tax credit for titutional and individual investors in housing. We also support an exclusion credit for individual depositors in savings accounts as a means of drawing ds into home lending institutions at lower interest cost than would otherwise necessary. This latter approach is especially attractive as the encouragement savings will reduce overall demand, and is thus counter-inflationary.

Another possible approach is to empower the FHLB System and FNMA to sell housing ds which would be exempt from federal income tax.

inequity in the current tight economy, as vividly reflected in the market statistics of the last year. Immediate action is needed to redistribute some of the burden which housing is carrying for implementing monetary policy. This can be done by pumping a limited infusion of funds into the housing sector, while continuing to tighten up on credit as a whole. In addition to the tax approach discussed in II-5, this can be accomplished as follows.

Recommendations:

The Federal Home Loan Bank advance mechanism should be expanded and subsidized. No other method, to our knowledge, is as efficient as this in bringing down mortgage interest rates across a broad segment of the market at relatively low cost. However, significant rate reductions will require supplementation of FHLB funds with those of the Treasury. Any such subsidized advances should be earmarked for housing purposes only.

The emergency FHLMC mortgage purchase program announced in May should be reinstituted and expanded to cover existing housing. Two and a half to three existing homes are sold each year for every new one. These existing houses have lower average prices than new and their sale is less inflationary. Furthermore, most new homes are purchased by owners of existing housing, who must sell in order to buy.

VII

Inflation and the Housing Industry

Presentation and Discussion
Housing Finance Panel

LLOYD BOWLES, VICE PRESIDENT, UNITED STATES LEAGUE OF SAVINGS ASSOCIATIONS

THE CHAIRMAN:

Let's go to the next panel, which is on housing finance. I note that we have a number of speakers beginning with Mr. Lloyd Bowles. I would hope you will stick to your time limits.

So, Mr. Bowles, we start with you. Mr. Bowles is Vice President of the United States League of Savings Associations.

MR. BOWLES:

Mr. Secretary, my statement may seem redundant. There are some duplications from my good friend, Mr. Cenker.

I will drop down and save you some time.

The housing industry cannot possibly make a reasonable comeback unless there is a source of funds to home buyers at rates far below those available today. The only potential source for a substantial flow of funds in housing at reasonable interest rates, we feel, is in the savings and loans.

interest rates that we place on savers inevitably are passed on to those who borrow from the savings and loans to build a home. The great need of the mortgage market is for positive net savings flow in the S&L's.

Now, to achieve this, first, we believe, the most important thing Congress can do--hopefully with the support of the administration--is to provide some type of incentive for people to deposit their funds in the account of financial institutions of all types, Mr. Secretary: savings and loans savings banks, commercial banks and the credit unions. This would not only increase the amount of income that the American people would save and thus assist in the anti-inflationary effort but would encourage people to place their money in a financial institution versus the other forms of investment. It would reduce the amount of disintermediation and thus promptly increase the amount of funds available for residential mortgages.

Now, it would be very helpful if the Treasury Department would change its rules and permit banks and thrift institutions to offer a tax deferred savings account like the Series E Bond issued by the Treasury in its savings bond program.

Secondly, and finally, we would urge that the congress speedily complete work on HR-11221, which has passed both the House and the Senate, and agree that there should be $50,000 insurance coverage for depositors with the FDIC and the FSLIC.

The House approved last February a bill to provide $50,000 in federal insurance coverage. However, the Senate version of the bill authorized an increase to only $25,000. Now, we hope that in view of the crisis in housing Congress would accept the $50,000 figure. This would be of immediate practical help in assuring the people that their money and financial institution is as completely safe as it was in 1934, and it would encourage people to place their money in savings and loan associations. And, Mr. Secretary, it would not cost the federal government one additional dollar.

Thank you very much.

think that I will be one of the conferees on that bill, and you may rest assured that that will be my aim in moving up to that figure.

MR. BOWLES:

Thank you very much.

MR. WIDNALL:

I heard yesterday that the major problems of the lending institutions have been in the large institutions, that the rural institutions and the small institutions have not experienced an outflow; as a matter of fact, having a net inflow as institutions. Is there any substantial truth to that?

MR. BOWLES:

Yes, sir. You are right that the small institutions in the urban areas are not suffering as much as those in the large cities. However, in the month of July the outflow, net outflow of S&L's was $1,200,000,000. So, in the aggregate--I said July; I meant August; excuse me--so in the aggregate there has been a serious deterioration of our savings.

completed the formal presentations that we hold the questions until all of the panelists that are expected to speak have spoken. If you think of a question, jot a note on it so you don't forget it, and during the question period we will handle all the questions to all of the people who are speaking.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Executive Summary

The main points made in the attached paper are:

1. Closer control of the Federal budget is necessary with a target for 1976 of a significant surplus.

2. Monetary policy should be eased somewhat from its present posture.

3. We assume that the Government is continuing to give a high priority to defense, social and welfare programs and housing.

4. Insofar as tax structure is concerned, the granting of tax incentives or other reductions in taxes should be avoided, unless there is an obvious and substantial benefit. It also may be prudent to review whether or not an excess profits tax should be imposed to recapture windfall gains accruing to certain sectors.

5. In the international sphere, a policy should be followed to reduce drains on U. S. capital markets.

6. While Government regulations in housing may not be contributing to inflation of the present type, it may be well to seek uniformity in building and zoning codes, usury laws, foreclosure statutes, and property transfers.

7. Consideration should be given to GNMA tandem plan for conventional mortgages, GNMA insurance of mortgage-backed securities based on conventional mortgages and to broadening present tandem plans.

8. Wage and price controls are very difficult instruments and should only be used in special cases. Guidelines for wage and prices would be less objectionable except that the Government would be putting its credibility on the line.

9. We think that the tax incentive which would give a tax credit to investors in mortgages should be pursued as one means of improving the competitiveness of the mortgage market.

FNMA's Response to Questions in

President Ford's Letter of August 30, 1974

I Fundamentals

It is our view that Federal expenditures should be limited as much as possible and held to under $300 billion in fiscal 1975.

In addition, we would favor a surplus in fiscal 1976 on a unified budget basis. The present budget implies a deficit of $15 billion, using the former Administrative budget concept. We think that a surplus on a unified basis could be achieved by limiting the growth in expenditures and by resisting the development of new programs.

We assume that the Government gives a high priority to defense, social and welfare programs and housing. We endorse these priorities. In dealing with housing, we recognize that in the present situation, we cannot expect a return to a 2.4 million rate of housing starts. Judicious broadening of present programs, however, can avoid a decline to catastrophically low rates of starts. We would prefer to see programs that attempted to keep housing starts at least in a range of 1.7 million units at an annual rate.

There are a multitude of suggestions for reducing, modifying, or limiting federal taxation.

In the present context, we would hesitate to recommend any significant changes in the tax structure if they were to result in measurably lower revenues. In doing so, we recognize that there may be a few areas in which some technical changes or modest tax relief may have great benefits. We also would recommend that consideration be given to imposition of an excess profits tax to recapture windfall gains resulting from shortages in various sectors of internationally traded raw materials.

Insofar as monetary policy is concerned, it is quite clear that a firm monetary policy is desirable. However, that policy ought to be directed at limiting undue growth in demand. We have felt for some time that monetary policy has been too stringent and has had as a goal the correction of the inflation resulting from the escalation of prices for petroleum, other internationally traded raw materials and agricultural products. We do not think that this is a proper or effective role for monetary policy. Fortunately, there has been some easing in monetary policy recently, and some moderate further easing to permit at least a 4 percent rate of growth in the money supply would appear to be advisable.

In the international sphere, policies ought to be avoided which cause further drains on our capital markets. In this connection, it may be desirable to review and reinstitute the investment tax credit. Since its elimination this spring, loans to foreigners have increased very sharply and have helped to deteriorate our balance of payments. Reconsideration

of tax incentives for investment abroad also appears desirable since such incentives were developed when we appeared to have a capital surplus and the rest of the world was in difficulty. These conditions no longer apply. In addition, appropriate steps by the Government to encourage foreign investment in the United States would help our balance of payments and the drains on our financial and material resources.

Patterns of consumption are debated from various aspects almost continuously. Except for the fact that heavy spending on consumer durable goods financed by large increases in consumer credit may contribute to inflation, we do not see any practical benefits in trying to rearrange consumption patterns. It has been suggested and we recommend for consideration the reinstitution of controls on consumer credit.

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While we do not endorse a general tax increase at this time, we do not oppose ective tax changes which seek to assist hard-pressed industries or remove onsistencies in the tax law. For example, we question the continuation of the er cent investment tax credit at a time when monetary authorities continue to ıcally curtail the availability of investment funds. Tax policy should be lied consistently in a counter-cyclical fashion to achieve stabilization.

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Tax incentives or deterrents.

As explained above, housing suffers from inherent disadvantage in competing scarce credit. This disadvantage can be offset through tax incentives for stment in housing. Particularly if we continue our heavy reliance on monetary y, it is essential that offsetting measures be taken to pump money into the it-sensitive housing sector.

Recommendation: We support the initiation of an investment tax credit for itutional and individual investors in housing. We also support an exclusion redit for individual depositors in savings accounts as a means of drawing s into home lending institutions at lower interest cost than would otherwise ecessary. This latter approach is especially attractive as the encouragement avings will reduce overall demand, and is thus counter-inflationary.

Another possible approach is to empower the FHLB System and FNMA to sell housing s which would be exempt from federal income tax.

Areas of hardship and inequities requiring immediate attention.

As indicated above, housing as a whole has become an area of hardship and inequity in the current tight economy, as vividly reflected in the market statistics of the last year. Immediate action is needed to redistribute some of the burden which housing is carrying for implementing monetary policy. This can be done by pumping a limited infusion of funds into the housing sector, while continuing to tighten up on credit as a whole. In addition to the tax approach discussed in II-5, this can be accomplished as follows.

Recommendations:

The Federal Home Loan Bank advance mechanism should be expanded and subsidized. No other method, to our knowledge, is as efficient as this in bringing down mortgage interest rates across a broad segment of the market at relatively low cost. However, significant rate reductions will require supplementation of FHLB funds with those of the Treasury. Any such subsidized advances should be earmarked for housing purposes only.

The emergency FHLMC mortgage purchase program announced in May should be reinstituted and expanded to cover existing housing. Two and a half to three existing homes are sold each year for every new one. These existing houses have lower average prices than new and their sale is less inflationary. Furthermore, most new homes are purchased by owners of existing housing, who must sell in order to buy.

VII

Inflation and the Housing Industry

Presentation and Discussion Housing Finance Panel

LLOYD BOWLES, VICE PRESIDENT, UNITED STATES LEAGUE OF SAVINGS ASSOCIATIONS

THE CHAIRMAN:

Let's go to the next panel, which is on housing finance. I note that we have a number of speakers beginning with Mr. Lloyd Bowles. I would hope you will stick to your time limits.

So, Mr. Bowles, we start with you. Mr. Bowles is Vice President of the United States League of Savings Associations.

MR. BOWLES:

Mr. Secretary, my statement may seem redundant. There are some duplications from my good friend, Mr. Cenker.

I will drop down and save you some time.

The housing industry cannot possibly make a reasonable comeback unless there is a source of funds to home buyers at rates far below those available today. The only potential source for a substantial flow of funds in housing at reasonable interest rates, we feel, is in the savings and loans.

interest rates that we place on savers inevitably are passed on to those who borrow from the savings and loans to build a home. The great need of the mortgage market is for positive net savings flow in the S&L's.

Now, to achieve this, first, we believe, the most important thing Congress can do--hopefully with the support of the administration--is to provide some type of incentive for people to deposit their funds in the account of financial institutions of all types, Mr. Secretary: savings and loans savings banks, commercial banks and the credit unions. This would not only increase the amount of income that the American people would save and thus assist in the anti-inflationary effort but would encourage people to place their money in a financial institution versus the other forms of investment. It would reduce the amount of disintermediation and thus promptly increase the amount of funds available for residential mortgages.

Now, it would be very helpful if the Treasury Department would change its rules and permit banks and thrift institutions to offer a tax deferred savings account like the Series E Bond issued by the Treasury in its savings bond program.

Secondly, and finally, we would urge that the congress speedily complete work on HR-11221, which has passed both the House and the Senate, and agree that there should be $50,000 insurance coverage for depositors with the FDIC and the FSLIC.

The House approved last February a bill to provide $50,000 in federal insurance coverage. However, the Senate version of the bill authorized an increase to only $25,000. Now, we hope that in view of the crisis in housing Congress would accept the $50,000 figure. This would be of immediate practical help in assuring the people that their money and financial institution is as completely safe as it was in 1934, and it would encourage people to place their money in savings and loan associations. And, Mr. Secretary, it would not cost the federal government one additional dollar.

Thank you very much.

think that I will be one of the conferees on that bill, and you may rest assured that that will be my aim in moving up to that figure.

MR. BOWLES:

Thank you very much.

MR. WIDNALL:

I heard yesterday that the major problems of the lending institutions have been in the large institutions, that the rural institutions and the small institutions have not experienced an outflow; as a matter of fact, having a net inflow as institutions. Is there any substantial truth to that?

MR. BOWLES:

Yes, sir. You are right that the small institutions in the urban areas are not suffering as much as those in the large cities. However, in the month of July the outflow, net outflow of S&L's was $1,200,000,000. So, in the aggregate--I said July; I meant August; excuse me--so in the aggregate there has been a serious deterioration of our savings.

THE CHAIRMAN:

May I ask that from here on out until we have completed the formal presentations that we hold the questions until all of the panelists that are expected to speak have spoken. If you think of a question, jot a note on it so you don't forget it, and during the question period we will handle all the questions to all of the people who are speaking.

JOSEPH B. DOHERTY, PRESIDENT, NATIONAL ASSOCIATION OF REALTORS

THE CHAIRMAN:

Mr. Joseph Doherty, President of the National Association of Realtors.

MR. DOHERTY:

Thank you, Mr. Secretary.

I think the half million members of our organization would be very impressed if they knew that I was bracketed with a finance group on a panel because if there's anything we don't have, it's finance.

I am departing from the prepared script, Mr. Secretary, because of some of the developments that have taken place here this morning. I refer first of all to one chart projected on the screen by Mr. O'Neill which shows that in 14 of 15 years this government has been in deficit spending. No individual, no family, no business could survive with that kind of a track record, and we recognize that the government's problem is much more complicated than that of the individual. And so, although I'm not an economist and I can't debate on some of these issues that have been raised about the balanced budget, it seems to us that the balanced budget is a very sound principal of economics. And we would

like to see an across-the-board cut in the budget, and we recognize that it may be necessary to apply discretionary judgment in certain areas where there may be less fat than there is in others and where the shoe may be pinching harder.

When credit is scarce, the housing industry suffers because it lacks attractiveness to investors and because the thrift institutions that have to supply the financing for housing are locked into very strict regulations which do not allow them to be competitive in a market of high interest.

We believe that long-range relief can come from: one,. financial restructuring of the lending institutions; two, expansion of secondary mortgage markets; and, three, innovative financing techniques. We believe that immediate relief can come from: one, greater reliance on fiscal restraints than on monetary restraints; two, the temporary relaxing of those enviromnental controls that are retarding housing developments; and, three, to expand the Federal Home Loan Banks advance mechanism and subsidize through the Treasury to provide funds for both existing and new housing under a program that must recognize that in this country where we have two and a half to three times as many existing homes as

group, and certainly we sympathize with the plight of the construction trade and the new construction industry but we do feel an obligation here this morning to make clear that there are millions of American home owners who are unable to buy or sell in a society where there is a multi-million number of families every year and where we have a constant inflow of new family units, and we would like to see some recognition as we attack this problem to the fact that we do sell two and a half to three times as many existing homes as new homes.

That completes my statement, Mr. Secretary, because to pursue it further would be to repeat many of the things that have been said and to which we subscribe.

Thank you.

THE CHAIRMAN:

Thank you, Mr. Doherty.

ENNETH L. BIRCHBY, PRESIDENT, NATIONAL ASSOCIATION
F MUTUAL SAVINGS BANKS

HE CHAIRMAN:

Mr. Ken Birchby, President of the National Association of Mutual Savings Banks.

. BIRCHBY:

Mr. Secretary, my name is Kenneth Birchby. I'm President of the National Association of Mutual Savings Banks.

What I have to say this morning, I know, will be a little redundant. If you'll excuse me, I'll be a little redundant in my remarks while rather brief. Among economic sectors, the presently unbalanced anti-inflation efforts fall with a particularly heavy hand on the thrift industry and the home construction industry. It is essential, therefore, that economic inequities be lessened even as the fight against inflation intensifies. To this end, the savings bank industry urges adoption of the following eight points.

One, Federal Reserve monetary restraint should be eased somewhat while efforts to reduce federal expenditures and achieve a budget surplus are vigorously pressed.

Savings banks in July and August combined sustained a $1.3 billion deposit outflow, excluding

interest. From April to August of this year, the cumulative deposit loss to the savings bank industry was $2.5 billion. The time has come to ease somewhat the monetary restraints, thereby relieving upward pressures on short-term interest rates. At the same time we urge stringent cuts in federal expenditures below $300 billion in fiscal 1975.

Two, tax exemption or a tax credit should be provided for a portion of interest received on savings accounts. While it is critical not to impair federal revenues at this time, this kind of tax relief provides several overriding advantages. One, it would stimulate savings. Two, it would alleviate disintermediation at mortgage oriented thrift institutions, and, three, it would provide funds for the credit starved housing market.

Three, deposit insurance should be raised to $50,000 as provided in House-passed H.R. 11221. This measure is long overdue. Depositors are becoming increasingly insurance conscious.

Four, minimum denominations of U.S. Treasury and federal obligations should be raised to $10,000.

Five, deposit interest rate ceilings with meaningful differentials for thrift institutions

should be maintained and strengthened. The changes in Regulation Q ceilings adopted on July 5, 1973, triggered a major shift of funds away from mortgage oriented institutions to business oriented commercial banks. It is essential to restore the ½ percent differential between the savings institutions and the banks.

Six, legislation should be enacted to prevent the evasion of Regulation Q ceilings by bank holding companies. This legislation is on its way to passage.

Seven, efforts to develop a variable rate mortgage instrument equitable to both lender and borrower should be supported. Variable rate mortgage contracts will not alleviate the current housing crisis, but will be helpful in averting future crises.

Eight, thrift institution powers should be broadened; a federal charter alternative should be made available to savings banks as provided in the Financial Institutions Act, S. 2591. Broadened, more flexible investment and consumer service powers would improve the future competitive strength of mortgage oriented thrift institutions, and thereby increase the long run supply of housing credit.

THE CHAIRMAN:

Thank you.

MAX H. KARL, PRESIDENT, MORTGAGE INSURANCE COMPANIES OF AMERICA

THE CHAIRMAN:

Mr. Karl, the President of the Mortgage Insurance Companies of America.

MR. KARL:

Mr. Secretary, pressures due to depressed housing activity can be expected in any battle against inflation, but measures to obtain short-range objectives should not destroy an entire industry and leave a vacuum that in the long run will cost our society dearly. There are no better witnesses to the irretrievable damage caused by lack of economic planning for housing, than the mortgage insurance companies, whom I represent; and industry which in its brief history has insured $30 billion in mortgage loans in single family homes. Only one year ago, the purchase price of the average home we insured was $28,200. Today, $32,300. A year ago, the interest charged was 8 percent. Today, 10 percent to 10 and 3/4 percent. A year ago, an income of $11,800 was needed to qualify for a loan. Today, $16,160, an increase of 37 percent.

If we were to lift Regulation Q and require

thrift institutions and banks to compete for demand deposits, interest rates on mortages would climb to 13 percent and 15 percent. That, my friends, would spell disaster for home builders and home buyers alike.

The remedy? Even as a temporary expedient, it must be an incentive for savings, a tax exempt passbook account for thrift institutions and commercial banks with no limits. We need more than the little saver to save housing. We need the institutional investor to bring his millions into savings accounts

Is there a loss of revenue? Not at all, and here's where the numbers become important. We are 1.1 million housing starts below the minimum needed for our estimated 2.3 million or 2.5 million annually, a loss in revenue of $4 billion. It would be easily recovered through revenue from additional contributions to the GNP by housing producers and related industries, and it takes no more than a half million starts to recoup the losses. I believe we would have an additional one million starts if we could reverse the savings flow.

Now, if we cannot have a tax exempt savings account, then, the alternative would be a 10 percent savings tax credit, a bottom line deduction from

taxes coupled with an industry subsidy from the government in an amount that will effectively reduce interest rates to a maximum of 8 percent.

Now, these measures sound drastic, but if nothing is done quickly, housing will be bankrupt.

Thank you, Mr. Secretary.

THE CHAIRMAN:

Thank you, Mr. Karl.

thrift institutions and banks t
deposits, interest rates on mor
13 percent and 15 percent. Tha
spell disaster for home builder
alike.

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investor to bring his millions

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government in an amount that will ef

interest rates to a maximum of 8 per

Now, these measures sound drast

thing is done quickly, housing will

Thank you, Mr. Secretary.

THE CHAIRMAN:

Thank you, Mr. Karl.

WILLIAM E. EZZELL, FIRST VICE PRESI
MORTGAGE BANKERS ASSOCIATION OF AME

THE CHAIRMAN:

Mr. Ezzell of the Mort

MR. EZZELL:

Thank you, Mr. Secreta

As you know, the Mortg are the basic movers of cap and short areas. It actual or indirectly practically e today. We serve institutio side and savings users and the other. In this space, do not disagree with anythi as to the rapid inflation. not flowing. More importan

vernment policies predicated on the bel

recessions can be avoided and recoverie

only by increased federal expenditures

money. Over a period of 30 years, thes

have produced an accumulated residue of

programs, programs that permit only neg

to be made in a $300 billion budget. T

admission that the federal budget is ou

a situation that must be reversed by po

The principal cure must produce a

the federal budget and a degree of mone

that no longer validates federal defici

tionary expectations.

After the cure, what should be don

effort to reverse the inflation begins

results, it is essential that governmen

extensions of bank credit in areas that

productive. Borrowing by the Treasury

agencies should be designed to avoid fu

on savings deposits at thrift instituti

issues by private firms or institutions

the attributes of deposits should be de

the legislation on financial institutio

pleted. Federal exemptions for FHA and

from state usury statutes on a temporar

gency basis that does not disrupt the e

secondary market should be seriously co

The Federal Housing Administration shou

constituted as an independent federal a

with insuring actuarially sound mortgag

effective performance.

The overhang of uncompleted and

unsold, housing is a serious problem.

program is needed. The resources are a

dollars being returned to the cities
development, it is a contradiction t
existing housing stock and rehabilit
from federal aid programs. Last but
standby taxing authority should be g
President.

Thank you, Mr. Secretary.

THE CHAIRMAN:

Thank you.

DEMPSEY J. TRAVIS, PRESIDENT, UNITED
OF AMERICA

THE CHAIRMAN:

Mr. Dempsey Travis, Pre

Mortgage Bankers of America.

We've got about five mi

MR. TRAVIS:

America's housing polic

They go in different, incomp

eral, state, and local level

policies of our government m

tion's inner cities and to p

poor and moderate income fam

courage proper land use, but

abandonment and demolition.

courage the preservation of

too often it results in shoc

government taxes to support

Subsidies reduce interest rates, but lost in increased real estate taxes. and quality materials are sacrificed tations. Needs of blighted ghetto ne are denied to advance site criteria b tempts to solve social problems. We integrated cities and get abandoned n and cases of suburban isolation.

HUD develops regulations to adva policy that are hamstrung for lack of bility. We want financially viable p the regulations delay necessary actio assist the poor through rent suppleme with a program full of requirements t dishonesty and abuse. We want stable but force instability through income

Mr. Secretary, it is my

that the housing policies mus

coordinated.

MR. CHAIRMAN:

Thank you.

GILBERT ROESSNER, PRESIDENT, NATIONAL SAVING
AND LOAN LEAGUE

THE CHAIRMAN:

Gil Roessner, President of the N
Savings and Loan League.

MR. ROESSNER:

Mr. Secretary, I'll be very brie
three specific suggestions as part of
thrift institution recommendations for
for the flow of funds into housing, so
are short term and some of which would
term benefit.

First, we recommend that Congres
state usury statutes all federally rel
loans. These would be loans made by a
insured institution either by FDIC or
seems to us that it does the consumers
no good when the ceiling is limited ar

for a change in the basic tax structure
institutions be eliminated from that leg
It is my understanding -- and I am espec
that the Senators and House members here
this -- that on that basis there would b
support for the bill from the thrift ind
I think that is very important.

Lastly, again I would like to urge
Congress here to consider this. It is t
time we've been asking the Treasury -- t
of the Treasury to allow Savings and Loa
tions and other thrift institutions to b
ies of tax loan accounts. Although he h
we understand that he is authorized by s
do so. There is on deposit at almost al
the commercial banking system somewhere

DANIEL W. SPAULDING, PRESIDENT, NATIONAL ASSOC
OF REAL ESTATE BROKERS

THE CHAIRMAN:

Mr. Spaulding, the President of
Association of Real Estate Brokers.

MR. SPAULDING:

Mr. Secretary, let me hasten to
fully support the position taken by S
relative to the housing program. Fro
on paper, I will cite the following:
mystery that government has to put am
subsidize programs if housing require
and minorities with low to moderate i
be met. Current funds available are
ficient for the task. The new sectio
Housing Act of 1974 is an inadequate
for previous housing programs. Even

Fortunately, Congress has

235 and 236 in the subsidy pro

tively, are for homeownership and

and extended them to June 30, 1976

which have been abused under poor

are good and viable programs if pr

Also, the Congress mandated a HUD

act that all existing allocations

programs be utilized. There is an

build housing under sections 235 a

guards on vacant urban renewal sit

such public land under federal, st

ship.

It seems quite obvious that

community development programs are

funded even for the current fiscal

much for the longer run.

Finally, we need to reemphas

such strategic application in concert w
and monetary policy should be in a mann
effectively curb inflation and insure t
sharing of the resulting burdens and be
all economic and income sectors.

Thank you, Mr. Secretary.

THE CHAIRMAN:

Thank you.

HOUSING FINANCE PANEL: DISCUSSION

THE CHAIRMAN:

I'd like to begin the quest

nizing Congressman Conable.

MR. CONABLE:

Thank you, Mr. Secretary.

I hope, if nothing else the

delegates of this conference wil

pathy from the members of govern

It's obvious that the hous

the housing finance industry are

and, of course, government is th

can work back toward some degree

natural forces are beyond our co

I do think it's quite natu

that we find ourselves in an atm

advocacy here -- it's very easy

a matter of high priority. And

of exempting savings accounts from taxat
if you were to exempt the first $500 of
a savings account, a loss of government
$1.2 billion, according to the latest fi
seen. If you were to exempt the first $
terest income, it would cost about $1.8
that extent, the government would have t
money.

It would have to go into the v
market that provides most of the mortgag
the long-term capital market and, so, of
in doing that you don't get a net gain f
flow of money from the credit institutio

One of the things we've got to
obviously, is to preserve adequate balan
thrift institutions survive and so that

keep in mind that one of our respons
is to listen to the various forms of
to provide some of the ultimate deci
going to involve, as I said, to some
satisfaction for everyone, understan
there are going to be trade-offs.

THE CHAIRMAN:

Thank you, Congressman.

Congressman Ashley?

MR. ASHLEY:

The proposals advanced by
seems to me, are certainly stimulati
the short term. They're said not to
at least by Mr. Carlough, I think, a
short term, because the benefits wou
the increased receipts.

stimulative measures are inflationary
extent can this be justified -- these
justified in terms of what we will be
it's said that the 400,000 units of a
for this year are not enough. Is the
on that? If so, what should the figu
the cost of $1.2 billion to the treas
400,000 units for this year?

I'm wondering, you see, if it's
for us to say 1.3 million starts isn
if 2.5 million isn't too much, maybe
willing to concede that? So, what ki
figure are we talking about?

We're going to ask the Congress
government to consider seriously thes
proposals that you have suggested. I
us some kind of a target so we can me
of these stimulative proposals and tr

fools rush in where angels fear to
to comment in response to Congress
gesting trade-offs. It is a rathe
to do in a meeting of this sort, b
you agree with us that we fear a c
a system that, in the economy we ha
apply a seven-percent tax credit t

Now, granted, there may
dustry that needs the credit, but
economy, it seems to us, that that
slow down the advocation of that c
apply over to the housing where th
ging.

Now, if housing is recov
strong, then at that point we can
dit.

other area of complexity here. You're
new tax loophole, you understand, that
tified by the tax reformers as a tax l
you exempt savings accounts from taxat
a new preference toward housing in tha

I think one interesting study th
be done by government before it goes t
to find out who would derive the benef
Is it the lower middle-class, or is it
the wealthy person who has a number of
or large bank accounts -- who may get

All of these things are part of
sponsibility of government to be place
tion. Certainly there's no question y
your preferences to reflect the econom

THE CHAIRMAN:

May I, at this point -- and this
be now or in writing for me -- ask a c

One thing I'm not quite certai

particular proposal is, in addition

loss of revenues that comes about th

tion: Is there not also an indirect

in the sense that if you assume that

government must borrow a certain amo

pay for all the other things that it

the $1.2 billion or the $2 billion t

ed before, and that money is now tak

the savings account -- I take it tha

funds available for the people to sp

and other borrowing has somewhat of

on interest rates generally? I just

something that has to be addressed.

My second question would be:

mainly to help the S&Ls and others w

have separate problems which must be

I would like to see a comparison as

termination date would you put
disintermediation ends, and the
flowing back through the recogn
thrift institutions, what do we
that we lower the two ceilings?
question that I get into. I do
that today, but I think as an a
very useful if those questions

Yes, sir?

MR. ROESSNER:

Gilbert Roessner, Pre
Savings and Loan League.

I think we ought to a
in writing, Mr. Secretary.

I did want to respond
ley's question, however, as to

can afford to pay.

THE CHAIRMAN:

Go ahead, sir.

MR. BROCK:

I'm somewhat troubled b

versation, because when we try to

things we simply don't have avail

formation as to the cause-effect r

Let me illustrate: It'

one of our members that we have a

gram for purchasing mortgages at

first question I have is: Where

billion?-- from the treasury. Wh

ury get the $10 billion?-- from t

and savers. You take the money o

institutions which are already lo

much does that jack up the interest
many houses can you gentlemen not bu
cause of the increase in interest ra
vate mortgages in order to get a sub
mortgages? What's the trade-off the

Secondly, we have an awful lot
and small businesses in this country
large ones, but some -- who are lite
brink of financial ruin right now be
rowed money three to five years ago
longer than that -- but, let's say t
money at 6.5 to 7 to 7.5 percent and
that debt over right now just to sta
And they've got to roll it over at l
and their cash flow won't make the p
What happens to them when you force
rates, or when you divert the flow o
particular segment of the economy?
the potential home-buyer that you ma

support, directly, housing will resu
inequities in this relation. That i
the federal government for this will
degree, from present institutions.
possible that as much as $4 out of e
from thrift institutions, I think no
it. And I have supported legislatio
to the thrift institutions and to th
loans.

Now, in response to Bill Brock
and I know you're very concerned abo
are -- but I believe that the propos
tax relief for the thrift industry o
gested by Dr. Anthony Downs will get
consideration by the tax committees
and I hope that they will study that

Now, may I just, while I have
phone, say one thing to Mr. Doherty.

I introduced, we mandated that fift
money would be for new houses and f
$5 billion would be for existing ho
tion has at least been addressed to

THE CHAIRMAN:

I completely used up my g
time at the end of this panel, but
that we are dealing with some prett

If I might, I think Mr. H
sident of the National Lumber and B
Dealers Association, has something

MR. WALKER:

Thank you.

The question I'd like to
Bowles is right on his question, wo
to consider the possibility of an i

Also, the comment was
dilute the treasury income, and
would probably be true temporari
the long-run the increased tax r
tivity and the building might ta
lack of revenue.

THE CHAIRMAN:

Mr. Wriston?

MR. WRISTON:

I'd just like to respo
with the truism that you can't t
barrel than you put into it. In
dustry, the small businesses and
es and the mama-and-pop stores a
savings of individuals. And, I
really talking about is that tod

tion allowance in order to encourage t

oil -- and that's a loophole.

So, I would like to return

only so much in the pot -- and each o

duction in the pot is the production

And that's the only way that we can f

or anything else.

So, I'd like to just suggest

Congressman Conable and others on the

that what Mr. Greenspan was suggestin

have a fractionalized financial servi

the United States in which the consum

a low rate of interest if he's a smal

high rate if he's an affluent man, an

is the one that is paying the check.

So, I think that if we are

when the time-frame changes, those wi

loopholes too.

So, I think the main thing

the structure of the financial servic

which I think is in the need of overh

THE CHAIRMAN:

Thank you.

I think we should hear from

Widnall and then that's all because w

Mr. Widnall?

MR. WIDNALL:

Congressman Barrett just re

when you're talking about a tax credi

ment tax credit -- that credit is use

stances in many industries to moderni

new plants that reduce employment bec

VII

Inflation and the Housing Industry

Discussion Paper
Organized Labor Pa

PARTICIPANTS ON THE

LABOR PANEL

Robert A. Georgine, AFL-CIO Building a
Trades Department

Edward J. Carlough, Sheet Metal Worker
Union

John H. Lyons, International Associati
Structural and Ornamental Iron Work

Peter Fosco, Laborers' International U
North America, AFL-CIO

Hunter P. Wharton, International Union
Engineers, AFL-CIO

Martin J. Ward, United Association of
Apprentices of the Plumbing and Pip
of the U. S. and Canada, AFL-CIO

THE STATE OF THE ECONOMY

AS SEEN BY THE

BUILDING AND CONSTRUCTION TRADES DEPART

STATE OF THE ECONOMY

Let us make no mistake about it. We ar
fledged recession -- one which threatens to
mine world stability. Recently released gov
in the second quarter of fiscal year 1974, t
negative growth in output. Even the most op
economists no longer forecast a dramatic ups
of 1974. Latest projections from optimistic
to two percent rate of growth in output for

This is a peculiar recession in that it
rate of inflation. Newly released figures s
price index rose by 3.7% in July; if project
this would mean an annual rate of over 44%.
rise in retail prices when the wholesale pri
along, as they inevitably are, to the consum

This rise in the wholesale index probab
hope the annual rate of inflation can be bro

The government has come up with several propo
and monetary austerity coupled with a balanced bud
revival of the Cost of Living Council to monitor w

We must express some disappointment with thes
not feel that they properly reflect both the natur
ness of the present inflationary period.

Balancing the budget through drastic cuts in
is apparently an all-seasons remedy. In 1932-33,
the cure for our worst price and business deflatio
being offered as a cure for our worst peacetime in
a valid remedy then and it is not a valid remedy t
troubles in 1932-33 were not due to the state of t
rapid inflation of 1973-74 similarly does not stem
but rather, from outside sources. In fact, in the
ending, the budget was practically balanced, and t
blamed for the sharp price level increase we have
Furthermore, it does not seem to have dampened the
of inflation. In fact, there have been sharp redu

Under the present circumstances, budget c

recessionary pressures. I recognize that inte

ment is necessary; however, further budget cut

dangerous. Such measures would condemn us to

unemployment and losses of production, profits

that our society will not and should not toler

one-dimensional policy seeking to choke inflat

we need to adopt a balanced and comprehensive

problem.

Much of the 1973-74 inflation is of the "

with exogenous food, fuel, and raw commodity p

it is being threatened by the development of a

Labor faced with the fact that it was the only

straint during the abortive Phases III and IV;

costs of fuel and food has found itself faced

wages. Naturally, it has sought to recoup its

against expected future increases. Businesses

input costs have raised prices. Neither group

ask Force must monitor the entire spectrum of man
osts. Importantly, profit margins must not be ig
re ever to be able to assume a downward trend.

In addition, in view of the traumatic experie
e see the need for the Task Force -- or some othe
he potentials of rational supply management. The
ight monetary policy has played havoc with the co
ousing markets, which are presently in a depresse
usinesses are having problems obtaining credit, w
orporations are still able to meet there credit n

Consequently, the Federal Reserve must retrea
ightness with selective credit rationing in order
quities in the present allocation of credit. The
pecial help.

In addition, the Federal Reserve should gradu
nterest rates.

A truly balanced program must recognize the c
he suffering of those who are most adversely affe

and medical costs consume most of the budg

and middle income families. Yet, these pa

Consumer Price Index have all climbed at a

of the national average.

During this period, food prices have

coal costs are up a full 62.8% and gasolin

costs have climbed 11.4%, and medical care

People with fixed incomes are especia

people with cost-of-living escalator contr

because they spend a larger proportion of

which have experienced above average incre

Yet, some people must gain in an infl

people? Oil companies' profits are astron

big corporations have recently posted subs

despite falling production or sales. Bank

in the short-term bond market. The First

recently estimated that in spite of the de

corporate after-tax profits jumped 28% in

Consequently, it would seem that some type of

for lower and moderate income families is in order

the form of increasing the standard deduction and l

of the personal income tax, or reducing the rate s

employee payroll taxes. Some people may argue tha

however, if coupled with a tax reform program to c

federal revenue will actually increase. The majo

been to redistribute income from those groups least

flation to those groups most affected. Additional

become evident: (1) it will help to slow down the

and thus dampen inflationary pressures, and (2) th

loopholes will help to stimulate more productive i

Finally, as the government seeks to cure infl

deliberate stagnation, unemployment will rise. In

that the official statistics already greatly under

state of unemployment, as they only count "active

unemployed, and therefore fail to take account of

who drop out of the market. In addition, shifts f

for us to conceive that a country as prosper
should not be able to assure each of its cit
work, gainful employment. We think the prob
the economic tools that incorporate social g

We also feel that it will become eviden
that this is an "inadequate demand" inflatio
react to the curing of consumer purchasing p
unemployment.

In conclusion, we can no longer afford
to invoke the same old discredited nostrums
cutting back on the money supply, increasing
necessary construction programs, closing our
problems will go away. They will not. We a
of inflation, one accompanied by recession.
immediately to the true causes and take the
will not be easy. We have no prior experien
I am confident that we can proceed.

A step in the right direction will be t
budget-balancing with consumer budget-balanc

VIEWS

OF THE

BUILDING AND CONSTRUCTION TRADES DEPARTMENT

ON

THE STATE OF THE ECONOMY OF THE UNITED

AS IT AFFECTS THE CONSTRUCTION INDU

INFLATION, HOUSING AND CONSTRUCTI

The Overall State of the Economy and Inflation

Inflation affects different groups in the po
differently.

Families and individuals living on fixed inc
most adversely. Retired persons living on saving
or social security find it increasingly difficult
Even those who get cost of living increases fall
medical care, food and utilities for which price
above average, represent a greater proportion of
for them than for younger people.

Those who must live on welfare must reduce t
of living.

Families of the unemployed who must live on
income provided by unemployment insurance, and, w
on savings and welfare, bear an inequitable part

Despite increased unemployment and a reducti
purchasing power, there are those who would remov
protections and ask construction workers to accep
Advocates of reduced wages for workers generally
of strict government control of profit margins fo
developers. They similarly ignore the fact that
workers have suffered from a 12 percent rate of i
past year and have no choice but to ask for wage
tect their standard of living.

Both the Congress and the Courts have recogn
is not a commodity, and people have a right to o
for wages to support a decent living standard. I
Bacon Act was enacted into law, assuring that wag
on Federally-assisted contracts were comparable t
in the area for comparable construction projects.
purpose of this Act -- to prevent itinerant contr
mining local labor and local contractors by payin
adequate wage -- is as valid today as when the Ac

not "set" wage rates. It merely requires that gover pay the prevailing minimum wage rate in the area whi of either collective bargaining or individual contra Bacon Act prescribes prevailing wage rates, not unio least 60% of the Department of Labor's prevailing wa involve rural non-union areas. In those areas where might appear high, annual earnings, affected by seas and other factors, are much less than would be expec average hourly wage rates.

An abolition of the wage protections embodied i would most probably result in a return to the chaoti which existed in the early 1930's, with local constr continually being undermined, causing local unemploy ing the economy even further. Davis-Bacon protects the workingman. It also protects the economic posit of union contractors. These contractors are bound b bargaining agreements, enforceable under the Taft-Ha

Causes of Inflation

The banks have thrived (except a few that los national exchange speculations) because the single approach to fighting inflation has been tight mone interest rates. High interest rates, in turn, bec tionary factor as they are passed on in prices of vices. As the tight money "overkill" leads to red more unemployment and more unused manufacturing ca ductivity is lowered to increase per-unit costs an prices. Higher interest rates also spur inflation the supply of housing for people of moderate-incon price and rent rises which must create pressure fo

Obviously part of the inflation stems from th scarcity of grain foods and oil. Rational export pursued to preclude an exhaustion of American grai the American consumer subsequently pays a penalty

Prices for imported oil are being set by an i cartel and domestic crude oil prices have been set

Apparently prices generally have been ou

costs in industry. After-tax corporate profi

quarter of 1974, on the average, were 19 perc

and in the second quarter about 26-28 percent

This is after profit boosts of 26 percent in

accounting for inflation, there has been a si

profits -- expressed in real purchasing power

past few years.

In contrast the real purchasing power of

earners has declined about 5.3 percent over t

about 7 percent over the past 2 years.

Wage earners are currently striving to c

percent increase in the cost of living over t

collective bargaining settlements concluded i

quarter of 1974 provided an average first yea

9.2 percent and 7.4 percent over the life of

cost of living adjustments in many contracts.

Government spending is often singled out

Possible Solutions

To the extend that a concerted effort is to
the budget, the basic approach should be to incr
closing tax loopholes. Capital gains provisions
loophole. Many should be tightened, instead of
happen under pending proposals. The oil depleti
be eliminated. The deductions by oil companies
royalties paid to foreign nations are another ta
costs the American public unbelievable sums in l
With the additional revenues, we could support s
service programs adequately and still have a bal

There is another action that could be adopt
tration which would cut across the budget - infl
and the need for more adequate housing and publi
struction. In large part, due to the higher int
interest payments on the Federal debt rose by $5
fiscal year 1973 and fiscal year 1974. This bur
payers will undoubtedly rise some more in fiscal

determines that such action is necessar

purpose of preventing or controlling in

of credit in an excessive volume.

Allowing credit resources to go to

pay the highest interest rates, through

results in a proliferation of costly go

affluent. The consequence is a shortag

prohibitive interest rates for home mor

development funds, and utility company

Federal government must also pay higher

Under the Credit Control Act there

credit terms for different purposes, an

limit any extension of credit under any

deems appropriate." There is authority

luxury goods and services and provide a

of credit for housing, public utilities

ment construction. This would also red

in short supply and heating fuel, there

There should be no attempt to alter or remove

tection of labor wage standards. Labor should not

as the target of punitive actions in the name of ar

As far as Federal monitoring and publication c

impact of price and wage decisions is concerned, we

the proposal has to be expanded to include interest

dividends and executive salaries.

Similarly, and more emphatically, labor cannot

and price controls or guidelines within the same fr

1971-1973. Under such circumstances, wage controls

would be enforced by every employer, while there wo

quate enforcement of price controls or guidelines a

be no controls or guidelines on interest rates, div

executive salaries. Labor could only go along with

guidelines that would be equitable, with the necess

staff required for enforcement, and with coverage c

claims in the economy.

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guidelines that would be equitable, with the necess

staff required for enforcement, and with coverage o

claims in the economy.

Municipalities, boards of educatic

because of the condition of the bond ma

electorate frightened by America's ecor

of voting against bond issues, either h

the building and filtration plants, res

pitals, mass transit systems and a host

they have had to defer the constructior

time.

This means a loss of facilities wh

built if we are not to experience a ser

failures, much less accommodate the add

population.

It means loss of work, loss of job

The opening months of 1974 brought

to the nation's construction markets.

January, materials shortage in February

as the GNP fell six percent, inflation

money crunch in May all contributed.

for an estimated 10%, 1973 to 1974 increase in co
however, it means a 13% decrease in real volume c
during 1973.

The high level of interest rates has, in rec
an adverse effect upon construction plans of publ
state and local governments. Both of these types
have been cancelling bond issues that were to pro
construction projects. Electric utilities for ex
tically chopping planned construction spending un
More than three billion dollars of cutbacks alrea
announced, and billions more are being considered

Capital-outlay slashes are to be accomplishe
stretching out completion of generating and trans
already being built chiefly through eliminating c
the start of some new projects will be deferred,
cancelled altogether. Spending budgets for this
and more distant years are affected.

Some examples of the adverse financial effec

(e) American Electric Power

(f) Baltimore Gas & Electri

(g) Virginia Electric Power

(h) New England Electric Sy

(2) Carolina Power & Light plans

by $87 million and its 1974-

construction will be cut by

(3) Niagara Mohawk Power Corp. a

that it plans to defer $42 m

$275 million in 1974 constru

Here are two suggested investmen

affect the electric utility industry:

1) Increase the rate of the
percent to seven percent

2) Remove the Section 46 (a
the credit in a taxable
tax liability may be off
presently not be deemed
lize Section 46 (a) to p

a. the first $25

b. one-half of th
tax, and

Increased construction unemployment is ma

unemployment in the production and transportat

material. Furthermore, the decreased demand f

due to construction-related unemployment, mult

in the economy. We submit therefore, that it

pursue policies, in the name of combatting inf

the workers to bear the brunt of economic cont

ticularly construction workers.

The August figures from the Bureau of Lab

unemployment in the construction industry tota

overall rate of 11.1% nationwide, up from 10.

crafts in some areas are experiencing as much

unemployment. Just last month, 18,000 constru

on the State House in New Jersey demanding job

which has been unknown since the 1930's. By p

workers back into gainful employment, we could

economic plight, but our government.

a) The lost taxes to Federal and State g

substantial and would be saved shoul

once again be employed.

d) The loss of business taxes which oth collected by a resumption of product also speculative but would certainly to be helpful in attempting to reach balance between revenues and appropr

In short, the Federal Treasury by a comb new revenues without new taxes, could realize order of a billion dollars if we could substa ment in the construction industry.

The human cost of unemployment is incalc for attention. When these costs can be addre is not inflationary, does not exceed budget a which will lead to an improved America, commo compassion dictates that we move ahead.

Inflation and the Housing Industry

homes in relatively high price brackets. Assis

also continue to decline as construction under

moratorium peters out, while the new Section 8

quire months to gain momentum.

In June, the majority of new homes were pr

above $35,000 an increase of over 38 percent in

since 1969. At this price, only a small upper-

of households can afford to buy these houses.

households have adequate housing and will not

9-1/2 percent and 10 percent mortgages -- or in

even 8 percent mortgages -- instead of the 5-1/

percent mortgages on their existing homes. On

most families with more moderate incomes, inclu

of young families, cannot afford the new homes

cannot pay the rents that have to be charged fo

units, given current financing costs.

While it is clear that housing costs have

it is statistically invalid to claim that labo

A major distinction should be made b
increases and those wage rates which refl
greater productivity, and fewer manhours.

There are two different indexes whic
weight of the components of housing costs
measurements indicate that the labor cost
represents a relatively small proportion

The first index illustrates the rela
ponents of the total initial cost of a si
following table provides this information
1969 and 1974.

	1949
On-site labor	33%
Materials	36%
Land	11%
Overhead & Profit	15%
Financing	5%
Other	--

The other index for measuring housing costs is a

the components of monthly homeownership costs. This d

the home building cost which measures only the initial

completing the home.

Component of Home-Ownership Costs (Monthly Costs)	Relative Importan (Percent) End of 1969	En
Total Home Ownership Costs	100	
Home Purchase	39	
Land	9	
Financing	3	
Overhead and Profit	5	
Labor	7	
Materials	14	
Other	1	
Mortgage Interest Payments	24	
Property Taxes	12	
Property Insurance	3	
Maintenance Repair	22	

On-site labor represents only about 6% of the monthly

cost.

In August, 11.1 percent of construction workers w

housing markets and inflationary price

existing stock. The current annual sta

below the annual increase of 1.6 millio

the past two years. It also does not a

estimated 700,000 units lost from the h

to demolitions, fire, flood and other c

allow for units to accommodate the mobi

of the population. The overall product

creates housing shortages which breed m

The scarcity and high cost of cred

in periodic and repetitive recessions i

It has reached depression proportions t

been a fundamental change in the struct

market. A large number of affluent and

households have learned to manage their

order to obtain the high returns availa

Consequently available loanable funds n

the highest bidders, and this reduces t

monetary policy remains the sole means of credit regula alter this sequence it is necessary to have a selectiv and credit allocation policy based on social and econo ties. The extension of available credit consonant wit economic growth should be eased for housing and other objectives and tightened for low-priority purposes.

Selective credit policies to dampen economic acti economic sectors providing lower-priority goods and se also decrease demands for materials in short supply, a restrain price increases.

In order to make more land available for reasonab homes that most people can afford, the exclusionary zo of many suburbs have to be eliminated. Court decision favorable toward this objective which has to be pursue

Labor is available, as reflected by the 11 percen unemployment rate. In light of seasonal unemployment construction labor, and the inflationary increases in living, the construction labor force has no choice but

Solutions for the Housing Industry

Long-run solutions, such as selec policies and elimination of exclusiona cussed above. Short-run solutions, th present crisis and, in some instances, effects are the following:

1. Accelerate the preparation and iss the community development block gr the review of applications and req plans as soon as possible.

2. Accelerate the preparation and iss the Section 8 leased housing progr program, and begin the processing as possible.

3. Request an appropriation action to $800 million authorized by the Hou Development Act of 1974, and start of direct loans for senior citizen

action to release the $75 million in 236 f

this year.

6. Use the tandem plan for construction finan
the economic burden of 15 to 17 percent co
financing interest rates which makes housi
economically infeasible.

7. Support the enactment of legislation to au
mortgage loans to middle-income home buyer
rates substantially below those currently

willingness to face up to the imposition of control
honest across-the-board controls on all sectors --
rents, executive bonuses, and salaries as well as w
take the form of a tourniquet on wages and a band-a
was the case under the late unlamented Phases I thr
there must be recognition of the need to correct th
equities. Wages must be permitted to catch up.

We would not accept even honest controls unl
measures are also taken. There must be an allocati
differential interest rates if necessary. Finally,
dollars in short term loans abroad must be restrict
should be available for investment in this country.

Fiscal measures are also important. However
in a federal budget cut, it should take place in a
federal debt charge. This can be accomplished as a
policy measures result in an increase in capital an
interest rates.

Clearly inflation is only one part of the ec

Statement Presented by Edward J. Carlough,
President, Sheet Metal Workers International Associ
at the Housing and Construction Conference on Infl
September 12, 1974, Atlanta, Georgia

The inflation which seems to have an unshakeable gr economy -- as pervasive, insidious and all embracing as it special implications for the construction industry and par construction workers, including the sheet metal workers wh sent.

Inflation by itself is bad enough, undermining the hard earned gains, reducing his standard of living, and ca hardship on those least able to bear it, namely the poor a fixed incomes. But when inflation is coupled with rising such as we have now, (up another one tenth of one percent have a situation that cannot be tolerated and must be deal conference -- along with its counterparts for other sector is a welcome sign of government willingness to face the pr we are pleased to participate.

tion. Indeed, quite the opposite. I think everyone
the average worker has some catching up to do; that
have been lagging behind the increase in the cost of
average weekly earnings showed an effective decline
the past twelve months (July 73-July 74). It is wel
has generally been restrained in its wage demands ov
It is less well known that the construction trades,
cized for what some regard as a lack of moderation i
have showed more restraint than other segments of th
the negotiated wage increase for the construction tr
percent, compared to an average of 5.8 percent for a
first half of this year the negotiated increase for
was 7.3 percent for the first year of the contract a
7.7 percent for all industries. This restraint has
workers no good. Not only are they caught with fewe
paychecks to pay for higher priced goods and servic
apt to get a paycheck at all, compared to their fell
segments of the economy. The unemployment rate for
double that of the labor force as a whole; 10.6 perc

Causes of Inflation

Since it is not the increase in wages which is fue inflation, what are the causes? As we see it there are t causes. The first one of course, is the increase in the fuel -- an important subject, but not the focus of this c second important contributing cause is the eagerness of b try to "make hay while the sun shines" -- to increase pri fits as much as possible now apparently in anticipation t going to get much worse in the future, either because of sumption of controls or some other economic restraint, or Third, and probably most significant for this conference, increase in interest rates -- the cost of money -- and th crease in the availability of capital as being a major fa tion, and even worsening inflation, which in turn could t recession into a serious depression.

A strong and healthy economy is dependent on a str crease in investment; especially in long term investment.

time however these investments are not being ma
meets our requirements, and certainly not on a
the production of goods and services at a level
stability. Instead, the tight money policy ini
the Federal Reserve Board, combined with a psyc
the fear of inflation is generating self-fulfil
activity, has produced an astronomical increase
decline in long term investment in favor of sho
only add further fuel to the fire.

For example, public utilities which need
meet consumer demand cannot attract investors b
the long term burden of a ten to twelve percent
state and local governments, looking for ways t
to build the public works necessary just to kee
quirements for service imposed on them by an ex
correctly unwilling to saddle their taxpayers w
high interest rates. And of course the average

Many corporations are justifying their present

necessary to attract capital for long term investment

equipment. But the investor is not taking this bait

he? In the present climate no one is willing to put

term commitments. The fear of further inflation is

pervasive. For most investors the only security is

liquidity -- and that means that what money is availa

short term, quick turnover loans. Moreover, to an a

see capital going overseas in short term loans to fo

interest rates are even higher than they are in the

figures may be helpful here. Between December 1972

government savings bonds -- which represent long ter

increased by approximately 8 percent. During the sa

the short term government securities, that is the 91

Bills and other short term securities which pay a su

rate of interest than the savings bonds, increased b

effect of this of course is to increase the federal

which more later).

$8 billion, compared to only $2 billion fo
little more than $1 billion in 1972. Asid
our balance of payments, that is a lot of
the country at a time when we are sufferin
a shortage which has slowed investment, sl
to serious unemployment.

Some Corrective Measures

If we are to increase the supply an
it seems to us that several measures shoul
Federal Reserve Board must ease up on its
the money supply and thereby help to reduc
shift in monetary policy alone will not be
the inflation psychology so that investors
the long term commitments necessary for in
This means we must be prepared for the imp
controls; honest across-the-board controls
they cannot be in the form of a tourniquet
on prices -- which is what we had under th
through IV. There must be firm controls o

also be recognized that controls cannot work unless they t account the inequities which currently exist, primarily as of the unequal impact of the previous round of controls. be allowed to catch-up so that the worker does not carry t disproportionate share of inflation, as he is now.

We would not accept even honest controls unless oth measures are also taken. There must be an easing of the F Board's tight money policy and an allocation of credit, wi interest rates if necessary -- to encourage long term inve mit the expansion of necessary public services, and not th make it possible for the average wage earner to provide hi or her -- family with a decent place to live.

We must also stop the hemorrhage of U.S. dollars ov this much needed capital is invested in our own economy wh desperately needed, rather than being used simply to furth U.S. banking community.

I am aware that much of the current huge outflow of U.S. banks is in the form of "petro dollars," deposited in the petroleum producing countries; and that it is a part o

of oil over the past year. In our view h
are still U.S. dollars and can be used fo
economically and productively. As long a
out of the country in search of the highe
continue to do so. We cannot afford to l

Fiscal Policy

There has been much discussion ove
the impact of federal spending and tax po
fiscal measures in curbing inflation. Wi
tical economics of fiscal policy, there a
feel should be made.

First. -- Any reduction of federal
human or physical resource development wo
and economically counterproductive. A re
not only lead to a decrease in consumptio
unemployment, but it would put the burden
painfully on those least able to bear it.

Second. -- The current federal bud
represents a standstill federal effort --

less, would represent a serious curtailment of necessary
deed, individual benefit payments (veterans, social secur
unemployment insurance, etc.) <u>must</u> be maintained, and wil
to be increased.

Third. -- If there is any value in reducing federa
let them be reduced at the expense of the bankers and oth
reaping the advantage of the increased charges on the pub
than on the individuals, who are served by the government
economic programs. Last January when the Budget was pres
the interest on the federal debt for the current fiscal y
at $29 billion. But with interest rates rising, it is cl
total debt charge will be substantially higher before the

These debt charges can be reduced by easing up on
reducing interest rates. The bankers will suffer a bit
Budget would be reduced and the taxpayer spared additiona
to maintain the federal debt.

Inflation, Recession and Unemployment

country) a recession with an unchecked dec
growth, and steadily increasing unemployme
percent before the year is out -- which wo
more in the construction industry. In our
tion problem we must not overlook our othe
be in the position of curing the cancer bu
same time that we are developing means to
we should also be addressing ourselves to
and recession. That is why SHEET METAL WO
skepticism at proposals to reduce federal
combatting inflation. We are told that cu
a very painful process, and that people wi
clear to us that it is not the economists
process who are going to be in the unemplo
in mind. They see those lines filled with
sheet metal workers. We are not ready to
inflation altar -- and we do not think it

CARPENTERS' ACTION PROGRAM
(CAP)

TO MEET THE

<u>CRISIS</u> <u>IN</u> <u>HOUSING</u>

AS PROPOSED BY

WILLIAM SIDELL, GENERAL PRESIDENT

UNITED BROTHERHOOD OF CARPENTERS AND JOINERS

AT THE

C O N T E N T S

CARPENTERS' ACTION PROGRAM TO MEET THE CRISIS IN

INTRODUCTION

CRISIS! . . . EMERGENCY! . . . HARDS BREAKDOWN! . . . SCANDAL! . . . DISASTER! . . . FAILURE! . these and other equally unsettling terms are being more fr in the headlines and front pages and editorials of our Nat papers, industry and trade publications, and other media t stresses impacting upon the social and economic fabric of a grievously ill and sorely neglected housing industry.

These warnings are followed up with r reactions by leaders from government, investment, banking, clearly revealing that the market place is in disarray and financial system shows a lack of capability to address its toward a solution of the housing dilemma.

Because of the pervasive nature of the crisis and the discouraging lack of any new or bold initia action, I emphatically reassert my belief that the time ha Government to provide mortgage loan funds in amounts and a essary to support a level of housing production to meet na

To meet the problem of repeated crise Carpenters' Action Program (CAP) proposes hereinafter that housing industry be removed from market places and be plac of the Federal Government.

Brief Summary

of

CARPENTERS' ACTION PROGRAM
THE CRISIS IN HOUS

1. The new President has wisely counseled us to
of the recent past behind us and to devote our en
of the momentous problems facing us at home.

2. It is our belief at the Brotherhood of Carpe
that the chief victim of the self-feeding triad o
... more inflation is the American housing indust

3. We are now entering what is the second full
history of modern home construction. Housing sta
availability, due to the unprecedented rise in in
worse.

4. The barometers of new housing starts and bui
New housing starts during the first half of 1974
first half of 1973 Then, in July, the starts ra
year-ago level and building permits 43 percent be

5. The upward spiral of interest rates, combine
further exacerbates this depressed situation. Th
is drying up and available only at very high rate
and mutual savings banks, the main sources of mor
simply do not have funds. Price inflation has re
homes sold are now priced at above $35,000, and t
at above $32,000. With current high interest rat
income to meet total homeownership costs on a hom
Therefore, approximately three-fourths of America
ruled out of home purchases.

order to assure that luxury houses would not be purcha
a maximum mortgage amount ($35,000) would be establish

11. In order to insure the highest quality constructi
should be met to the letter. It is our goal to fight
the future by insuring top quality construction now.
home construction is an investment in itself.

12. We wish to strongly emphasize that the government
eventual recipient of the interest on all loans. This
give-away program. Despite initial outlays, that we h
loan monies will not only bounce back, but they will s
housing industry and the economy in the process.

13. A second major step, to avoid the periodic inflat
bring high interest rates and depressed housing constr
selective credit allocation whenever needed. Unless w
the use of credit for facilities to produce luxury goo
economy overheats, we will continue to have frequent c
If we rely on market mechanisms to allocate resources,
a proliferation of items less essential than housing w
high interest rates, while shortfalls of housing produ
are experienced. The president has the power to autho
Board to institute such regulations and control of cre
Control Act of 1969.

14. This is a bold proposal. This is a daring propos
controversial. Yet, we feel that once in place and or
provide a permanent stability for years to come to an
American dream.

15. Let's look at some of the benefits of the propose
credit regulation.

16. First, and most important, millions of middle Ame

individuals. The housing money needs of Americans
patently unfair situation.

20A. Given the low and declining level of resident
housing needs of low-income families, there is als
to reactivate all the low-income housing programs
The Section 235 and 236 homeownership and rental h
have proven to be successful means of large-scale
With proper program management to prevent fraud, a
of occupants, these programs can be used effective
overall housing needs. There is unused contract a
duction of a few hundred thousand units under thes

In addition to the reactivation of the 235 an
Administration should fully utilize the authority
Development Act of 1974 to implement the Section 2
and the public housing program.

21. In conclusion, as sweeping as this proposal i
cedent. The Government decided long ago that the
not operate either efficiently or fairly in a tota
of parities, price supports, and ceilings, has lon
right to a just living.

22. Even now, the Congress is on the verge of inv
patient relationship, through National Health legi
every American's right to decent, affordable healt
auto-insurance law, administered at the Federal le
every driver to insurance protection, without exor
passed the Senate. The Employment Act of 1946 est
American to a job and mandates the Federal Governm
as a matter of permanent policy.

23. It is our belief at the Brotherhood of Carpen
to decent health care, access to employment, insur
farm product availability that every American has
home, and that the time has arrived for the Federa
mechanism to make mortgage loan monies available t
anent basis.

THE HOUSING NEED

In order to provide adequate housing for all Ame
and Urban Development Act of 1968 established a Natio
twenty-six million new dwelling units during the next
meant an annual average of 2.6 million new units to b
the ten year period 1969 - 1978.

The United States Census for 1970 determined tha
five American families lived in substandard housing.
study for Urban Studies found that 13.1 million famil
deprived".

The study recently completed (January 1, 1974) b
for the National Association of Home Builders determi
new units had to be built during the 1970's and 30,03
be built during the 1980's.

In the years 1969 through 1973 we built 11,942,3
basis of the National housing goal of the Housing Act
2.6 million new units each year, we fell short by sli
new units of meeting our goal during this period. Th
National goal set by the Act of Congress would requir
over 2.8 million new units each year 1974 through 197

On the basis of the study of Dr. John Kokus, Jr.
units built during years 1970 through 1973 were sligh
units short of our housing need. Therefore, to make
and to meet our housing need of the 1970's and the 19
we build slightly over three million units each year

On the basis of these figures we have to build o
2.8 million new units for the next five years to meet
goal and at a rate of over three million new units pe
to meet our housing need.

THE HOUSING CRISIS 1974 AND BEYONI

Each month of 1974 we have started less new hou did in each respective month in 1973, aggregating to the first seven months of 1974 than during the first

If this decreased rate of new housing starts ir have every reason to believe it will, this means tha in 1974 will be 37% below our National goals and 42%

It is our belief that unless immediate action i reduce interest rates for both residential construct construction mortgage financing that the number of r beyond 1974 will continue to decline.

This is the housing crisis, crisis in terms of for the American people; crisis in terms of home bui business' crisis in terms of employment resulting ir million jobs in the Residential Construction industr dential Construction supply industries; crisis resul the related supply industries either going out of bu at drastically reduced scales.

THE HOUSING PROBLEM

What are the problems preventing the United opportunity to each citizen to have a decent home environment? The housing industry is an extreme tely balanced conglomeration of millions of inde ment officials and consumers. Partly because of practically no control over three of its basic fa money, land, and materials. Recently, the Nationa Builders determined the following changes in the costs of a new single-family house:

	1969	% of Total Cost	1974
Land	$5,630	22%	$8,950
Financing	1,790	7%	3,580
Overhead & Profit	3,330	13%	4,650
Labor	4,430	17%	5,380
Materials	9,400	37%	11,450
Other	1,020	4%	1,790
Total	$25,600	100%	$35,800

From the above it can be seen that in percen of construction financing increased the most (10 increased the least (21%) during this period.

We would also point out that in 1949 onsite 33% of the selling price of the average new house amounting to 17% of the selling price in 1969 an in 1974.

According to the Census Bureau of the Department of
median sales price of a new one-family house in May 1974
Based upon a 10% downpayment and a thirty year mortgage a
the home purchaser would pay $105,371 for the house that

The United Brotherhood of Carpenters in the realm of
in the sense of justice and fairness we ask why?

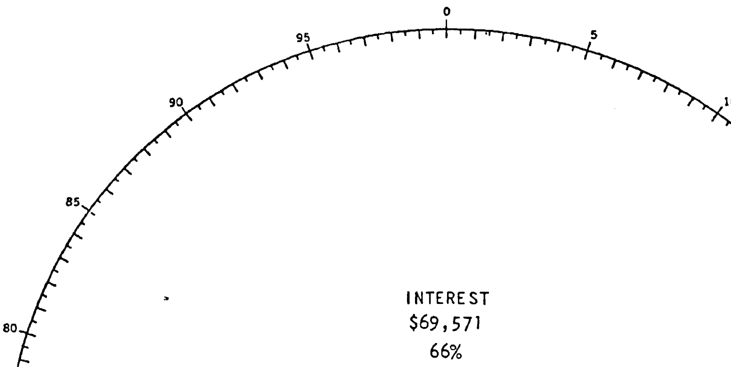
The cost of such a mortgage is $69,571 to the home p
amounts to 66% of what the purchaser really pays for his
realize that this tremendous amount of money and this sig
of the overall cost of the house did not add one cent to
the house, we again ask why?

The following chart shows the house purchaser's comp
upon a sales price of $35,800 with a 10% down payment an
at 10% interest.

COMPONENT COSTS OF SALES PRICE AND MORTGAGE

INTEREST FOR AN AVERAGE NEW SINGLE FAMILY HOUSE

(TOTAL COSTS = $105,371)



INTEREST RATES -- MONTHLY PAYMENTS -- ABILIT

The following table sets forth the cost of fina with a 10% down payment at interest rates ranging fr also sets forth the resulting monthly payment of pri relative to 25% of the monthly gross average earning workers:

THE COST OF FINANCING A $35,800 HOME AT 4% TO 11%

Interest Rate	Total Interest Paid to Maturity 1/	Total Interest, Principal, & Down Payment	Monthly Payment, (Principal and Interest) 1/
4%	$23,156.35	$58,956.35	$153.82
5%	30,047.00	65,847.00	172.96
6%	37,323.07	73,123.07	193.18
7%	44,949.78	80,749.78	214.36
8%	52,890.84	88,690.84	236.42
9%	61,109.78	96,909.78	259.25
10%	69,571.30	105,371.30	282.75
11%	78,241.90	114,041.90	306.84

** Based on the median sales price of a new 1 family house sold in May, 1
for a 10% down payment ($3,580); $32,220 loan amortized over a 30 year
Census Bureau, U. S. Department of Commerce, "New One-Family Homes Sol

1/ Total interest and monthly payments were calculated on a $32,220 loan
standard amortization tables showing equal monthly payments necessary
6 decimals.

2/ Based on the average number of weeks in a month (4.3) multiplied by th
production or nonsupervisory workers on private nonagricultural payrol
Labor Statistics, U. S. Department of Labor, "Employment and Earnings"

GOVERNMENT ACTION

The housing industry by itself cannot solve problems it faces. Banks and insurance companie industry by withdrawing mortgage money whenever earn higher yields elsewhere. This leaves savi and mutual savings banks the burden to make up savings and loan associations and mutual savings of housing mortgage funds, they have been unable lending during periods of high interest rates, withdraw their funds to make investments elsewhe

Federal Government action in the depressio mental in revolutionizing the financing of resi helped the housing industry. At that time, mos financed with three to five year term loans on were not made. Then when the loan became due, with either paying back the entire principal in or refinancing all or part of the loan. But if repay the loan or refinance that part that he co lose his house. Millions of Americans lost the of the 1930's because they could not obtain ref were fearful of losing their money. Confronted and mass despair, the Federal Government create istration in 1934 with the immediate objective the housing mortgage field. It did so by first mortgages and then by popularizing the amortize rectifying a critical flaw in residential mortg the FHA has underwritten loans on 13 million ho billion of mortgages. From its mortgage insura dividends -- more than $245 million -- back to setting aside $1.2 billion in emergency reserve minimum property standards which have improved t FHA insured housing. The Federal Housing Admin

THE PROPOSED (CAP) SOLUTION - TOWARD A SUBSTITU

Our nation must place a higher priority on pro in a suitable living environment for every American century-old national goal that is still far from be the time to create a new Federal Housing Agency emp meet our future national housing needs. Sufficient authority should be provided the FHA so that it can a coordinated national program of residential mortg a steadily increasing level of new residential mort est rates that people can afford. Specifically we

1. The financing involved in the housing indu market place and be placed under the regulatio ment.

2. A new Federal Housing Agency be establishe to provide mortgage financing at interest rate available to households with an annual income

This proposal involves mortgage loans -- not g will be repaid the Federal Government with interest

There are multiple benefits from this proposal working Americans would be able to purchase homes w sufficient income to do so. Second, the domestic h receive the type of consistent funding needed to pr cycles in the industry. Consequently, thousands of subcontractors who go out of business during "bust" better chance to survive and contribute to the ulti of building houses. Also, the elimination of the b would help the housing industry build better qualit last longer. Third, the higher level of housing co provide more than a million jobs directly and indir taxes that the additional employed workers would pa revenues of federal, state and local governments. of employment and housing construction should help and local welfare payments and housing subsidies of

VII

Inflation and the Housing Industry

Presentation and Discuss
Organized Labor Panel

R. A. GEORGINE, PRESIDENT, AFL-CIO BUILDING AND CONSTRUCTION TRADES DEPARTMENT

THE CHAIRMAN:

Moving over to the Organized Labor Panel -- Mr. Georgine?

MR. GEORGINE:

Mr. Secretary, as I said earlier this morning, we have positions before you -- as a matter of fact, very lengthy and very detailed -- and we're glad for the opportunity to present our views. And we're glad that the administration and the Congress are listening, and we hope many meaningful actions will be forthcoming shortly.

So, I'll just summerize very briefly some of the points in our position.

I think there's no need to review the combined general inflationary state of the economy in labor and particularly in construction. The purchasing power of the worker's wages is five percent less than a year ago and seven percent less than two years ago as far as his take-home pay is concerned -- and that's just for those that are employed. It is tougher for the eleven percent or so that are unemployed.

And the indications are that things will get worse unless some drastic policy changes are made.

I would submit, also, that if we produce

mobility, we will be creating a shortage which will only add to the inflation through increased prices in rents. A drastic slide in residential construction related to tight money and high interest rates is the replay of an occurance that has been experienced a half-dozen times during the last two decades. This time it's worse and hurts more. We know from experience that if tight money is the prescription to cure inflationary fevers, the side effects are severe pains for the housing industry, which is then hurt more than any other part of the economy.

We have heard today some discussion of the federal budget -- balancing the budget with drastic cuts in government spending is apparently an all-seasons remedy. In 1932 and '33 it was lauded as the cure for our worst price and business deflation. It is presently being offered as a cure for our worst peace-time inflation. It was not a valid remedy then, and it's not a valid remedy today.

Our deflation problems then, in 1932 and 1933, were not good for the state of the budget and the rapid inflation of 1973 and '74, similarly, does not stem from the budget, but rather from outside sources. In fact, for the fiscal year just ending

the budget was practically balanced and therefore cannot be blamed for the sharp price-level increase we have just witnessed.

Furthermore, it has not seemed to dampen the exploding rate of inflation. In fact, there have been sharp reductions in government deficits since 1972, but accompanied by accelerating rates of inflation.

We believe a more equitable way would be to use selective credit. There is broad authority for this under the Credit Control Act of 1969 and we urge that it be utilized to deal with the immediate crisis, which is becoming a catastrophe. We urge the speedy and full implementation of the Housing Community Development Act of 1974. We certainly want to see this piece of work work well and we would do all we can to make it successful.

However, we know it takes six months for a new program to get off the ground and gather momentum. To offset the momentum and the housing decline to meet social needs, we also recommend that the necessary action be taken to: one, to start the 202 housing for the elderly program; two, to activate the 235 and 236 programs including programmed management and counseling

ority, four, to support legislation for below market interest rates for direct loans in middle-income housing, and five, to utilize the tandem plan to provide construction financing for multi-family development.

Now, we do have remarks about construction in general, which we're going to hold for this afternoon -- if there's anyone left with the patience to listen. So, I'll leave with that summary. Some of my colleagues will have some comments to make about some of the comments that were made earlier and we'll go from there on that.

THE CHAIRMAN:

Thank you very much.

Do we have any other presentations?

RTIN WARD, PRESIDENT, UNITED ASSOCIATION OF JOURNEYMEN
D APPRENTICES OF THE PLUMBING AND PIPE FITTING INDUSTRY
THE UNITED STATES AND CANADA, AFL-CIO

E CHAIRMAN:

Mr. Ward?

. WARD:

My name is Martin Ward, I'm president of the United Pipefitters International Union.

First of all, let me clear up -- if I can -- the position of the labor movement insofar as the balancing of the budget is concerned. It's the official position of the AFofL-CIO that we are in favor of a balanced budget.

However, we are also looking as to how it should be done and we feel that if there's any curtailment in spending as far as the federal budget is concerned, that it ought not to be in those areas which affect the poor, the unemployed, the elderly or the handicapped or any other social obligation. If you don't, you'll be taking on an additional burden by cutting back those type of items in the budget and it would be improper and not right that it would fall on those people who are more drastically hurt by inflation than any other segments of our country.

increases in revenue, but we feel that those increases in revenue, again, ought to be placed in those areas of more importance. In a meeting yesterday with labor leaders and President Ford, George Meany raised another point in which there could be some movement made to get the budget back from the 305 billion dollars to the 300 billion dollars that President Ford is looking for; and that's in the item of 23 billion dollars in interest that's being paid by the United States Government for money for which they will borrow. If interest rates were lower, if we got away from this tight-money policy and got back to some lower interest rates, the 23 billion dollars which is allocated for payment for interest that the government will borrow, that's another area in which some cut-back could be made without any trade-off insofar as other budgetary matters are concerned. I just wanted to point that out and bring it out today because it was a matter of discussion in a meeting with President Ford yesterday, and it was suggested by President Meany.

Thank you.

THE CHAIRMAN:

Thank you. Any other comments from the panel?

WARD CARLOUGH, GENERAL PRESIDENT, SHEETMETAL RKERS INTERNATIONAL UNION

E CHAIRMAN:

Yes, Mr. Carlough

CARLOUGH:

I'll be very brief, Mr. Chairman. I said to the last two panels that there's a great amount of difficulty in taking my time, but since I was not a member of the panel, I did so. But it was Dr. Greenspan or someone else -- and I say this in all respect. In looking back, I thought of Zero Mostel in Fiddler on the Roof when his daughters came to him one by one and said they wanted to get married; and he wanted them to get married on the one hand and on the other hand, he didn't. I'm not here to represent myself; I'm not here to represent other elements in the country, I'm here to represent labor. You know that when you talk about budget cutting, we're the first people that bleed. I didn't fill out this sheet that was sent to us by HUD in terms of what should be the level of income budget, et cetera, in the United States because our purpose in being here is to get the plasma that we need back into our economy; to get interest rates down.

the gentlemen said to me, "You mentioned the farm loans and U. S. money going out in foreign loans and even other places. You really didn't mean you were advocating some method of keeping that money in the United States because after all, it's just chasing a higher interest rate." But when we had controls and the steel industry was under controls and they were selling steel to your bank at higher interest rates and others under control went outside the country to make more money. Now the bankers are going outside the country to make more money. We can't go outside of the country; we're stuck here. We like to be stuck here. We've bled before, but we think this time around a lot of people have, just a little bit. We think the figure that Marty mentioned a little while ago, whether it's 23 billion or 29 billion, the interest on the federal debt; we think that can be refinanced in a different way than it's being done. We think there ought to be a slight increase in the monetary supply. We think something ought to be done about land practice. We mentioned this to the Democratic administration, the Republican administration, whether the economist was Dr. Galbraith or Dr. Greenspan, the answer is it's a very complex problem.

While it's a little heretical-and since Salem no one burns at the stake in this country - we ought to consider seriously some form of enforced savings program. This is how we could allocate credit, resupplement some method of a tax collection on corporations and on persons above a certain level. Let the money be refunneled back into the institution--not just savings and loan institutions but institutions that serve the construction industry to drive the interest rates down and that that money collected would then be a tax asset and credit to those individuals and corporations six months from now to a year.

We think the money situation is desperate, and something can be done about it and something should be done about it.

THE CHAIRMAN:

Thank you, Mr. Carlough. If that concludes the panel presentations, why don't we have some questions at this point?

WILLIAM FUTRELL, VICE PRESIDENT FOR ECONOMIC AFFAIRS
SIERRA CLUB

THE CHAIRMAN:

Mr. Futrell is here, I think. Do you have any questions?

MR. FUTRELL:

Yes. I'm down at 25. The question, Mr. Secretary, is a statement which I wanted to make some time today; and this may not be the appropriate time. I'm a law professor at the University of Georgia Law School, and I'm here representing the Sierra Club here today.

It's disconcerting to hear in many of the administration's statement concerning inflation clear calls for a roll-back of environmental controls in the name of controlling inflation. The question as posed in the agenda, possible solùtion--changes in governmental regulations to increase productivity, example, changes in environmental protection regulations, which appears on several pages of the agenda--confuses the issue. If a company relaxes its environmental standards, it may be able to lower the price of its products; but this is not an increase in productivity since the cost of environmental

conditions, and increased medical bills. More goods and services are not being produced; their cost has simply been externalized again. So this merely denotes that the costs have been shifted to other parties.

There are considerations which go beyond the economic factors. Environmental laws of the last few years are just beginning to take effect, and there's considerable doubt among scientists and public health officials whether they are strong enough, really, to do the job. So a roll-back in environmental controls, which appears to be called for by administration statesmen, such as Secretary Morton speaking at Expo '74 fixes the agenda items as posed here today, which it is reassuring to note that most of the speakers have not responded to. In fact, we have had officials speaking for the different organizations here calling for controls on inflation within the parameters of environmental controls. So far only three speakers have zeroed in on environmental quality

for the economy but for the body politic as well.

There are specific items which apply in the nature of our public lands and our national forests touching the housing and construction industry. These general principles apply to them, and they are explored in greater length in my statement which has been placed on the desk. Thank you.

THE CHAIRMAN:

Thank you. Any other questions of the labor panel? I think that's a statement of general application to the discussion that preceded it, and I think probably a statement in response to some things that might be considered when we get to the construction panel this afternoon. I did see some papers from producers, mentioning that one of the things we should do, is take a hard look at the environmental situation, not from the standpoint of becoming a nation of polluters; but the main thrust that I saw -- when I read the papers at least -- was the time delays that are caused by the consideration, not that the consideration shouldn't be given, but aren't there ways of expeditiously seeing that the environmental considerations are given the full attention that they should have.

Mr. Secretary, just for the general information of the audience, the most recent issue of *Fortune* that just came out, an article singled out HUD as the best place to begin cutting. It's not an article on which we environmentalists take any viewpoint; but in view of the consideration here today, I think panel members and delegates would be interested in reading it.

THE CHAIRMAN:

I will read it eagerly.

(Laughter)

VII

Inflation and the Housing Industry

Discussion Papers
Special Housing Needs Panel

PARTICIPANTS ON THE

SPECIAL HOUSING NEEDS PANEL

John G. Burnett, Council of State Housing Agencies
John B. Williams, National Association of Housing and Redevelopment Officials
James H. Scheuer, National Housing Conference
M. Carl Holman, National Urban Coalition
Windell Freeland, National Urban League
Glenn A. Claytor, Housing Assistance Council
Ronald Froman, National Association of Indian Housing Authorities
Robert E. Johnson, National Rural Housing Coalition
Cushing Dolbeare, Rural Housing Alliance
William Morris, National Association for the Advancement of Colored People
Sidney Spector, National Council on the Aging
Rose Wylie, National Tenants Organization

COUNCIL OF STATE HOUSING AGENCIES

STATEMENT FOR THE

PRESIDENT'S CONFERENCE ON INFLATION
AND THE
HOUSING AND CONSTRUCTION INDUSTRIES

ATLANTA, GEORGIA

SEPTEMBER 12, 1974

BY

JOHN G. BURNETT, DIRECTOR

STATEMENT FOR CONFERENCE ON INFLATION AND THE HOUSING AND CONSTRUCTION INDUSTRIES

by the Council of State Housing Agencies

Atlanta, Georgia September 12, 1974

This statement is presented on behalf of the Council of State Housing Agencies.

By way of background, this newly-formed Council represents state governments in some 30 states that are engaged in financing and otherwise assisting the development of needed housing for lower income families.

Several of these agencies have been established for five years or more and are fully operative. Most, however, were created more recently and were moving toward full-scale operations when the federal assistance moratorium of January 1973 was inflicted and largely throttled their progress.

Although they are a relatively new entrant on the housing scene, state housing agencies have already come to play a major role in many parts of the country in governmental efforts to help supply housing for families in the lower income ranges who are otherwise unable to obtain decent housing.

They offer long-term financing at below-market rates which, in combination with federal subsidies, can provide good quality housing at rents or prices within the reach of lower income families. In many cases these agencies also play a larger role in planning and developing lower income housing and relating the production of such housing to community development objectives and other broader public goals.

These programs represent a substantial assumption of responsibility by the states for governmental assistance in housing--in line with the emphasis of the federal administration during the past several years.

Some 20% of all housing developed under the Section 236 program during 1968-1972--the period of highest production of lower income housing in our nation's history--was produced under the programs of these state agencies. The housing that these agencies have developed represents an aggregate investment of some $4.4 billion.

antees to develop lower income housing.

Federal housing subsidies in sufficient amounts and on a workable basis--and capital from the private money market at reasonable interest rates--must be available if these public agencies are to do the job they have been created to do.

* * * * *

We fully share the view, with which I expect all of us here today agree, that the predominant concern in our nation today must be with halting inflation, perhaps the most severe and damaging peacetime inflation our nation has ever experienced. We agree too that doing this should and must involve sacrifices by all sectors of the economy including housing.

We also hold the view that the program for controlling and ending inflation must be one that avoids unnecessary long-term damage to essential production capabilities --and that avoids imposing an inequitable portion of its burdens on the poor and the most economically vulnerable in our society.

We further believe that the program cannot rely simply on general home truths about inflation and ways of coping with it that have emerged from past experiences. Rather, such a program must be tailored to the facts of our present situation where, along with heated inflation, we have elements of recession that already have harshly affected individual sectors of our economy.

This is the case with the housing sector, and particularly lower income housing. Housing construction starts are down 35%, from an annual rate of 2.4 million in 1972 to an annual rate of about 1.3 million in July of this year. Construction starts on housing for lower income families have dropped far more drastically--down some 58% from the annual rate of around 427,000 in 1970 and 1971 to around 180,000 in 1973, and they will be lower in 1974.

The consequences of this sharp reduction in housing production have been severe. Unemployment in the construction industry is now 11%, roughly double the overall national rate. Many companies in the construction and building materials industries are in financial distress and face the risk of failure. Most important of all, the urgent housing needs of the poorest in our society will be increasingly unmet.

As Senator Brooke has pointed out, a recent Harvard-MIT stu estimates that some 13 million American families, 20% of al our families, are unable to obtain decent housing at a pric they can afford. On top of this, the 1970-74 rate of 1.6 million new households formed annually is up some 60% over the rate that prevailed through the 60's. This places heavy additional demands on scarce housing.

A program that fulfills the objectives I referre to earlier cannot, in our view, rely entirely on across-the board policies of monetary and fiscal restraint that indis- criminately apportion the burdens and injuries of inflatio control upon those sectors of the economy least able to co pete in the market place for scarce credit resources. In such a competition experience shows that the housing indus --and those who urgently need the housing it provides--are the earliest and heaviest losers.

The program for inflation control must, rather, be tempered by specific, selective policies designed to serve the objectives described earlier and to fulfill basi public purposes such as those that were re-enunciated just three weeks ago in the new federal Housing and Community Development Act. Certainly that will be a difficult task for the public officials who must make those judgments. B it is different from simply acceding to the most politica potent pressures that the sacrifices be made by everyone b us.

* * * * *

We urge prompt, concerted federal action to rest housing production to an acceptable level, and in particul production of housing for lower income families.

The aim should be to start construction of at le 400,000 units of lower income housing in the current feder fiscal year. This is consistent with the Administration's jective of 300,000 unit starts under the new leased housin assistance program, plus starts that will occur under the older federal programs and those that will take place with federal assistance.

We believe for several reasons that this course action is consistent with a sound overall national program for controlling inflation in a manner that will not unduly damage the nation's productive capabilities or inequitably apportion the burdens of such a program. And we have one or two suggestions on steps that could be taken to reduce longer-term inflationary impacts.

Restoring production in the depressed housing sector to a level such as we are suggesting will not have an inflationary impact comparable to that which would result from intensified activity in other sectors. That is so because in large measure it will involve the utilization of labor and productive capabilities that would otherwise be under utilized--that are not now the objects of excessive price-raising demand.

This course of action is necessary to prevent inflicting on business and labor in the construction industry, and on the low and middle income families who are dependent upon housing supplied by that industry, a grossly disproportionate share of the burden of coping with inflation. Certainly housing must bear its fair share of that burden. But, as noted earlier, housing is classically a special victim of inflation, and is already such a victim in this one, as shown by the statistics on unemployment and drastically reduced production. For lower income housing those adverse impacts have been intensified and prolonged by the moratorium imposed 20 months ago on federal assistance that is indispensable for most lower income housing production. That moratorium was imposed for reasons which were unrelated to inflation and which have now been fulfilled by the recent enactment of the Housing and Community Development Act that largely incorporates the Administration's recommendations.

If the government fails to take effective action to revive housing production, the mounting scarcity of housing will drive up prices and rents and intensify inflationary pressures.

* * * * *

We recommend the following actions by the federal government to revive production of lower income housing and do so in a manner that will conform with a sound overall program to control inflation.

<u>First, HUD should promptly and effectively put into operation the Housing and Community Development Act that was signed into law three weeks ago.</u>

In this context we applaud Secretary Lynn and Assistant Secretary Meeker for so promptly issuing the proposed implementing regulations for the community development portion of this new Act. We hope that the proposed regulations for this new housing program will follow shortly and that the assistance authorized under this new program will soon be available on a workable and expeditious basis.

What is needed is a clear and early signal that the moratorium on federal housing assistance is ended and that HUD is now determined and able to operate this new program effectively. The authorities and funds now being provided as a result of many months of effort by the Congress and the Administration should promptly be converted into actual starts on new housing production at the level that is intended by this legislation.

I further urge adoption of the proposal of Senator Brooke for setting a goal to bring federally assisted housing construction starts up to the intended monthly level within the next six months. To monitor progress in achieving that goal, the Secretary of HUD should make monthly reports on federally assisted construction starts to the appropriate Congressional committees and the public.

There should be prompt issuance and implementation of revised regulations and procedures to carry out the new leased housing assistance program provided for in the Act.

There should be prompt issuance of the necessary regulations and procedures to institute the new Reuss-Weicker program of interest differential subsidies and guarantees for taxable obligations of state housing and development agencies. A prompt request should also be made for appropriation of the $50 million of contract authority authorized and needed to initiate this program in the current fiscal year.

HUD also should make clear that, in keeping with the intention expressed in the report of the Conference Committee on the Act, existing available funds under Sections 235 and 236 will be utilized to fund any new housing projects if and to the extent it turns out that the intended level of new starts on federally assisted housing in 1975 cannot be achieved solely through the use of the new leased housing program.

Second, the federal government should take action to help make available the private capital that will be required, along with federal housing subsidies, in order to reach the intended level of lower income housing production.

Otherwise the new federal housing program will fail in its aim of restoring an adequate level of production of lower income housing. Private debt and equity financing must be joined with federal subsidy funds in order to translate those funds into housing.

This may necessitate some modification of federal reserve policy to expand the amount of credit available for government assisted housing. It may call for other measures to channel scarce capital into investment in such housing either directly or through purchases of obligations of public agencies such as state housing agencies which invest the proceeds in lower income housing. It also requires that Congress, in considering modifications and extensions of tax law provisions, preserve the existing indispensable inducements to private equity investment in lower income housing, at least until effective alternate inducements can be devised.

Looking to longer term capital needs for housing, the government should establish a task force to develop recommendations on ways to attract savings into investments in housing production and conservation and to counter disintermediation that drains savings away from thrift institutions that invest in housing. It should also explore possible ways of encouraging investment of pension and life insurance funds in residential construction at reasonable interest rates. State and local governments and construction trade unions both have a substantial stake in housing; and pension funds for civil service employees and construction workers have vast amounts of investable funds that could in part be channeled into housing.

Third, a task force might also be established to explore ways of conserving our nation's existing housing stock and to preserve or restore declining urban areas. A substantial part of our existing housing stock is unnecessarily being lost both through physical deterioration due to inadequate maintenance, and through the deterioration of neighborhoods that makes housing located there virtually uninhabitable. More effective preservation of our existing housing will reduce the demand for new construction and mitigate the inflationary effects that construction has upon the economy.

This task force could explore more effective programs for housing rehabilitation. It could consider how the community development program can be applied more effectively to preserve existing urban neighborhoods. It could look into a more effective program of encouraging homeownership, recognizing that homeownership generally means better home maintenance than is the case with rental housing. It could consider tax or other incentives to encourage investment in home maintenance and improvement.

Finally, the housing industry and construction trades might establish a task force to recommend ways of increasing productivity and stabilizing costs in housing production, which would help counter inflationary impacts of a sustained level of housing production.

Most of these are subjects that have been talked about and thought about in the past and we have no special faith in task forces and studies, which can as well be a device for evading problems as facing them. But our current economic crisis may make this a fruitful time to take another hard look at some of these possibilities and do something useful about them.

ing starts and employment are seriously depressed. In July, housing re at a 4-year low. The annual rate was 1,335,000 units -- almost 40% rate a year ago. As to future housing activity, the forecast is that l be a lower rate of housing starts since building permits issued in at an annual rate of only 1,043,000. In the construction industry, loyment rate in July was 10.6% which was double the national unemploy- . These emergency conditions call for the emergency actions recommended

nistration spokesmen have recognized the need for public service employ- expenditures of billions of dollars if there are further substantial in unemployment. It is better to avoid more unemployment in housing ed industries by increasing housing construction. This will also meet using needs that cannot otherwise be met in today's market.

should take all actions necessary to accelerate the processing of Section cts in the pipeline. This is the fastest way to get a quick start of ion of over 100,000 multi-family housing units for the lower income JD offices should be advised to expedite these cases and process them gage amounts and rents that are realistic in terms of current costs; ome limits should be updated.

available unused contract authority and authorizations should be utilized o stimulate construction of additional subsidized housing for those of oderate incomes and the elderly. This includes housing assistance pro- er Sections 236, 235, 202, conventional public housing, and the new program. The following administrative or legislative actions should immediately to effectuate these programs:

Approve in an appropriation act the additional contract authorization of $75 million for Section 236.

Authorize in an appropriation act $800 million in loans under Section 202.

Housing-assistance applications for new projects should be processed without delay and without waiting until next year's filing of local assistance plans as part of a Community Development Program. The Secretary should provide the local government a 30-day opportunity to respond concerning an application regarding the need for the housing and consistency with any housing assistance plan of the local government.

Congress should rescind the provision in the Conference Report that commitments for new projects under Section 236 must await a demonstration that the housing need cannot be met through the new housing assistance program under Section 8. The new Section 8 program is untried and untested. It will take many months to determine whether that program will work to meet various housing needs. In the present emergency, it is necessary to proceed now with new projects under Section 236.

e serious questions have been raised concerning the workability of Section ogram which can achieve a large volume of housing construction, all neces- ons should be taken to make that program as workable and attractive as including:

(a) Establish fair market rents which are
of current costs.

(b) Use the Tandem Plan to provide par fin
on projects to be assisted under Secti

(c) Provide FHA-insured financing for a 40
carrying charges which are needed.

(6) With the present tight money and high intere
iencing great difficulty in obtaining constructi
When they can get such financing, the interest ra
problem, GNMA should utilize its authority to tal
struction financing on multi-family housing where
insured mortgage on the completed project. The
cable rate under the permanent mortgage.

(7) Housing should be sheltered from the dispro
tight money and high interest rates. The follow
this objective:

(a) An additional $6 billion should be aut
which GNMA will purchase FHA-insured mo
on new housing. The interest rate unde
zations should be at 7%. This financi
a reasonable continuing level of housi
programs of FHA and VA -- both rental
authorizations should finance more tha

(b) An additional $3 billion should be aut
Bank System for a commitment program w
than those which are FHA-insured or VA
purchases of new conventional mortgage
tutions and finance more than 100,000
would be made on conventional mortgage

The National Urban Coaliti
2100 M Street, N.W. • Washington, D.C. 200

September 17, 1

Honorable James T. Lynn, Secretary
Department of Housing and Urban Development
451 Seventh Street, S. W.
Room 10,000
Washington, D. C. 20410

Dear Jim:

I have forwarded as much of a revision of ou
tion, the Economy and Housing as we were able
What we have not been able to do is to comple
separate analysis -- somewhat similar to the
did in our COUNTERBUDGET, which would attempt
trade offs possible for some of the potential
housing proposals made by some of our task fo
Nor were we able to include, because the tech
could not possibly do it within the short tin
necessary revenue producing tax measures whic

At any rate, we shall all soon see
out. And, for what it's worth, I t
involvement in personal diplomacy h
in some quarters, which is worth co
dollar is at the present time.

Since

M. Ca
Presi

The National Urban Coaliti
2100 M Street, N.W. • Washington, D.C. 20(

PRELIMINARY PAPER

ON

INFLATION, THE ECONOMY, AND I

PREPARED FOR

THE HOUSING AND CONSTRUCTION CONFERE

U. S. DEPARTMENT OF HOUSING AND URB

INFLATION, AND HOUSING

That inflation has had a multiplicity of negative ef
is obvious. Equally obvious is the fact that inflat
economy have compounded problems which were already
right.

E before the onset of the problems of oil prices
tion -- along with the impoundment of housing funds
seriously weakened the housing industry. Worse stil
chances to secure decent housing for those Americans
ing class, or on fixed incomes. By now, these group
Americans -- whether they seek to buy, rent or lease
cated in many urban and rural areas by Depression-le
figures disguise -- has created an intolerable situa
action in the housing field. Even action promptly t
desired results in the short term, especially if con
our call is not for miracles, but for action. It is
Americans need decent housing; that many are spendin
for housing, which in some cases is criminally indec
the building and rehabilitation of housing -- and th
and financial institutions -- have the potential to
revenue. While this may be no time to council 'heat
would argue that increased activity in the housing f

HOUSING AND PEOPLE

One of the most crippling effects of inflation on th
the tying up of funds for construction loans and mor
The U. S. League of Savings Associations reports tha
suffered a loss of $1.2 billion in savings during Au
sa ngs and loans may have to reduce mortgage lendin
the end of the year.

There are several reasons for this outflow of funds

As the cost of utilities rise, and labor costs and mainte
apartments are no longer generating income sufficient to
sult, an increasing number of owners of rental units are
dominium ownership in order to relieve themselves of the
should not be ignored, however, that many of those who a
away with substantial profits while numerous elderly, lo
who can't afford to purchase their often long time resid
shelter elsewhere in a market where there is an increasi
housing.

As families are driven from the new home market, the pre
city housing continues to increase, as cheaper shelter i
there has been a sharp increase in the cost of existing
existing home sales above $30,000 during the second quar
to 46.5% of the sales in the second quarter of 1973.

Despite the increase in the cost of existing housing, nu
some rehabilitation and revitalizing of older neighborho
and increased cost of new construction bring some upper
back to the cities. While this phenomenon has the poten
economically viable, poor families who once lived in the
now being forced into some of the worst slum housing con
nation. The problem is further aggravated by a lack of
tion assistance. Faulty wiring and plumbing systems, al
that may stunt a child's growth or cause mental retardat
common hazards that low and moderate income families are
of inflation and the housing shortage.

Needless to say, those families who are taking the cruel
the poor and minorities. While the median income of Whi
$12.600 in 1973, the average income of non-White familie

Small wonder that in the face of statistics like these,
tion, eighty-five percent of America's families cannot a
1970, a HUD report revealed that Americans with incomes
percent of their income for rent. It is chilling to ima

starts under the program will be for the elderly and
can gear up its field offices to achieve a production
during 1975." It is worth noting at this point that
the 235 and 236 programs produced over 800,000 units
ir me families between 1970 and early 1973.

The ability of Section 8 to contribute to the new hou
lated to the state of the economy. Since the units a
conventional sources, the general economic picture se
financing will be available. Rising interest rates a
of money will determine not only whether such units w
will accommodate those families who are in the greate

The 1968 Housing Act set forth a ten year national go
ing units to accommodate our housing needs. While in
as new units, only about two million were projected f
with public subsidy. Not only has this goal of twent
recently, but a later report by the Joint Center for
Housing Needs 1979-80" points out the narrow definiti
the Kaiser Commission, which did not measure the full
tion. This newer study stresses the fact that it is
facilities or a lack of structural soundness that mak
but other factors such as the cost of the unit relati
neighborhood in which the house is located and the se
to the residents. Utilizing more up to date and comp
available to the Kaiser Commission, the Joint Center
of households that are housing deprived more closely
in 1970, rather than the 6.7 million presented back i
estimate does not include those who are deprived beca
f tors, so that a realistic estimate of need would b
it is estimated that one-half of these thirteen milli
of financial problems and will not be helped by the p
units.

...ly needed houses in our cities, these downward trends ha... failures by home builders up by twenty-nine percent from a ye... ...ders particularly hard.

Although inflated costs and high interest rates have been ma... this situation, the moratorium on subsidized construction ov... months has aggravated it. At the time the moratorium was an... National Association of Homebuilders estimated that forty-tw... were involved to some degree in subsidized building. Howeve... hit some builders, though, it hit low and moderate income fa...

FOOD AND INFLATION

Poor people, even in good times for the rest of society, are... off their competing needs for shelter, food, clothing and he... present, the cost of housing and the cost of food harshly li... the resources to do very much about their other needs.

When it comes to feeding their families, America's poor have... by inflation. Prices for basic foodstuffs, the dietary main... increased more rapidly than have higher priced foods, ordina... and upper income families. The "economy" food plan used by ... riculture to determine the food stamp allowance cost $2.50 m... many low income families received in stamps. While there ha... food prices in July over the previous month, it still cost t... of two adults and two school age children $152.50 a month; t... mo in food stamps.

The wholesale food price index already indicates that August... the July low, which was fifteen percent higher than a year a...

As prices have risen, upper and moderate income families hav... expensive foods, in effect "buying down". But, this option ... the poor, who are already buying the cheapest foods. And th... where the largest price increases have occurred. Dried bean...

NATIONWIDE UNEMPLOYMENT

Rising unemployment has reached a critical point in o
in Detroit, unemployment rose from nine percent in Oc
in May 1974 and the rate is expected to increase in t

In Newark, the average unemployment rate for 1973 was
in that city for the first three months of 1974 rose
Philadelphia, the average unemployment rate for the f
totaled 7.3 percent. In Flint, Michigan where Genera
the energy crisis forced a cutback of 35,000 employee
work force of 75,000.

In most cases, unemployment rates for minorities and
are much higher than the average rate. For example,
an average unemployment rate of 7.5 percent, while th
norities in that city ranges between 22-25 percent, a
South Bend, Indiana, the unemployment rate for White
for Black and other minority youth, 54 percent.

Critical unemployment, coupled with information culle
mentation of the Comprehensive Employment and Trainin
long way from solving our problems. This program, wh
sharing program, allows local government units to dev
to meet the manpower needs of their locality. Howeve
in various phases of implementing CETA and the commun
little understanding of the legislation and its impli

The rising cost of living, which affects all of us, h
Our constituencies register deep apprehension and con
S Antonio, for example, the price of beans, the lif
poor in that area, has more than tripled in the past

The Administration has indicated that it would consid
job program to ease the unemployment problem. A bill

OTHER AREAS IMPACTED

Under new regulations which took effect in Janu charged by physicians and dentists were allowed percent a year, instead of 2.4 percent as in th the r tes charged by hospitals for the average treatment will be allowed to go up nine percent

Postal rates in all categories of mail have ris and fuel oil prices continue to rise. In New Y typical customer pays eight percent more for t mount of electricity than was paid last year. power users have been hit with a twenty-one per increase in their electric bills. Again, in Te western Bell Telephone raised its basic rate fo residential service by 16.6 percent. The Houst and Power Company has raised its rates by 6.8 p residential and small commercial customers.

This list is by no means all inconclusive, but be clear. Without direct and immediate attenti tion and the special problems of the lower inco serious inequities will continue. We have deve recommendations which we hope will be given ser tion as the nation turns to formulating new pol dealing with these pressing problems.

The nation's tax policy has always been used as to stimulate private investment or disvestment sectors of the economy. To date, there are num

3. A Federal Housing Trust Fund sho
the Treasury Department to raise
the sale of tax exempt certifica
backing.

4. The Federal Reserve Board should
construction loans for low to up
housing.

5. A tax increase will in the long
finance expansion of needed prog
especially the support of the es
job producing and economic devel
cluding mass transit, community
mental facilities, health insura

6. Income received on the lowest ra
(e.g. 5% at commercial banks and
loans) should be free from both

7. A tax reduction should be made f

8. The elderly should receive a pro

It should be understood that tax redu
from taxable income, etc., all result
revenues received by State, City and
This deduction may result in an unbal
reduced budgets for cities badly in n
deteriorating municipal services. Th
which cut both ways that stimulated a
in the economy will result in an incr
by the various governmental units lis
would state that the budget would def
a result of the decrease in taxes col

was an attempt to reduce th outflow of funds fr
as a result of the activity in the municipal bo
state and city governments.

Whether or not tax incentives should be provide
the housing industry should be balanced agains
other sectors of the economy. Certainly, tax
on savings accounts, earnings made on investme
homebuilding industry, etc. would serve to sti
creased employment, and production of badly ne
etc. Further, the nation should consider the
elderly homeowners who are often forced to cons
their home in order to pay real estate taxes,
of low and moderate income families whose inco
terribly reduced as a result of inflation. In
property tax reduction for those families coul
resu t in more take home pay, and, more spenda
There are those who would consider a reductio
the elderly and low and moderate income famili
national priority. However, in face of the fo
most opponents would be hard pressed to justif
ments against tax deductions. The Department
estimated that in 1972 revenue cost of allowin
de utions for mortgage interest and real estat
families that made between $3,000 to $9,999 co
government $725 million while those familes wh
$10,000 to $19,999 cost the Federal government
Further, those families who earned between $20
cost the government $2 billion 236 million. T
seen, many an American homeowner already recei
from the Federal government through its tax po
ing homeownership.

SUGGESTED SOLUTIONS

4. That President Ford should provi
to certain sectors of the econom
to the general economy which wou
disaster.

5. A Federal Housing Trust Fund sho
the Treasury Department to raise
the sale of tax exempt certifica
backing.

6. The Federal Reserve Board should
construction loans for low to up

7. The Section 23 leased housing pr
national attention. As it is ,
attention in Washington.

8. The Federal National Mortgage As
ment National Mortgage Associati
private financial institutions s
companies, should revive their p
capitalized minority mortgage ba

9. Change the Federal Reserve Board
the money supply as evidence of
recesison builds.

10. Support the National Housing Con
come depressed housing construct

11. Charge the Federal Finance Bank
of assisting local government in
construction needs at reasonable
this support would be appropriat
interest costs on the borrowings

13. Recognize the need to start now establishing t passing the laws and setting up the administra machinery necessary to cope with the pending r employment and further slow down in economic g seems reasonably clear that during the next ye will continue, but it will be declining in imp while unemployment and recession will be of gr importance.

14. There should be an immediate implementation of service employment program tied to increases i employment rate of certain geographical areas have unemployment rates above 6%.

15. A tax increase will in the long run be necessa finance expansion of needed programs for citie the support of the essential capital facilitie job producing and economic development program mass transit, community development, environme facilities, health insurance, etc.

16. Action must be taken now. We can't afford to next year.

17. Low and moderate income families should receiv reduction in order to increase their take home

18. Property taxes should be reduced for elderly a come homeowners in order to offset the rise in of living which has been caused by inflation.

Economists such as Alice Rivlin of the
have argued that we are confronting co
resulting initially from the sudden sh
increases which precipitated a spiral
creases.

Rivlin concludes that "If the shock-sp
is correct, cutting government spendin
unlikely to have an appreciable impact
almost certainly will push the economy
Cuts in government spending without c
ductions could reduce demand for goods
to widespread layoffs that might take
still higher (than the expected 6%).
hardship, especially for the poor and
whose enemployment rates are a multipl
And we can add that the focal impact a
their economies and fiscal viability.

In face of its tight monetary policy a
cuts, etc., the administration has pro
time military budget in U.S. history.
bills before Congress are for national
$6 billion was pumped into the Pentago
flation.

The greater flexibility given to local
sharing is countered by reduced funds,
tion and soaring energy costs.

Budget cuts, while contributing minima
inflation would also increase enemploy
incomes.

To cut the domestic budget further wou

monetary market has resulted in a severely sa
market which reduces the ability of cities to
bond issues, and results in a greater percent
budget going to fund the city debt.

Furthermore, asnoted earlier, a severe reduct
monies available for housing in the citeis co
the earlier moratorium on housing programs ha
forced numerous families out of the home buyi
into deteriorating houses and neighborhoods.
only had the impact of making decent homes an
available, but also, the impact of driving nu
and minority businessmen out of business.

Inflation is having a disproportionate impact
as major business doninate the market place,
of the city as an incubator for small busnies

Inflation has already caused a sagging in the
of cities, with a resulting rise in unemploym
national enemployment rate is 5.3%, many citi
much higher average rates (e.g., New York Cit
Orleans 7.5%; Newark 10.2%; Philadelphia 7.3%
higher rates within their ghettos. It should
the proposed public service job program, to e
ment problem is scheduled to begin when the n
ment rate reaches 6%. This ignores the condi
areas of the country, mainly, the citeis, ghe

CONCLUSION

The national economic policy must look beyond

distributed, how the cost of inflation
distributed, and, how the costs of the
will be distributed.

To burden the cities, minorities and t
brunt of inflation, recession and depr
expenditures for social programs would
critical economic conditions faced by

NATIONAL URBAN LEAGUE
STATEMENT ON HOUSING AND INFLA

The National Urban League is most disappo Administration's approach to dealing with hous tion. We recognize that inflation is a proble of the citizens of this country, particularly minorities. However, programs designed to mee housing needs of poor and minority citizens ca used as the scapegoat as we develop solutions problem. Our disappointment rests with the ap the Administration has afforded the poor and m has been billed as a forthright attempt to dea blem. To put the "special problems of the poo one sub-item above "other" in the next to the agenda for the mini-summit on housing and infl

The National Urban League does not claim to a problem which thus far has eluded our for international experts and authorities. Given

output, and an increase in whole
(In 1971 and 1972, consumer pric
increasing at an annual rate of
whereas wholesale prices increase
percent in 1972.) With the lift
Phase 2 controls in early 1973,
followed wholesale prices, soari
in 1973. By the first quarter o
economy was experiencing "double
rates of inflation.

- all citizens have suffered somew
inflation and energy crisis -- b
and minority groups, most of all

  * The black poor and elderly we
  affected by overall consumer
  in 1973-74. Between December
  1974, total consumer prices r
  for unemployed and retired bl
  from 13.0 - 14.5 percent for
  with take-home pay of less th

  * The poor and minorities were
  affected by the energy crisis
  more rent for less or no heat
  hired, they were the first fi
  small businessmen, especially
  station owners -- one of the
  lucrative small black enterpr
  their businesses as a result
  crisis.

  * Although the poor use less fu
  homes, they use that smaller
  less efficiently, since they

Administration has further determined that the
inflation problem includes restrictions on the
must likewise acknowledge that the impact of s
disproportionately borne by the poor and the m
this country. Further, if this is the case:
tion should candidly state this judgement as s
involved in summit discussions must recognize
the Administration is considering proposals wh
nature will result in increased suffering for
ties.

The National Urban League recommends that
and its advisors address the question of how t
longstanding, critical housing needs of poor a
can be met, given the inflation problem. The
of this country have suffered enough.

Robert E. Johr
National Rural
1346 Connectic
Washington, D

NATIONAL RURAL HOUSING

STATEMENT ON INFLATION, HOUSING

Executive Summa

NRHC views inflation as a symptom
of a broader set of economic problems.
sistence of poverty and near-poverty f
rates of unemployment that are unaccep
as a whole, and alarming for many, par
youth; the misallocation of resources
resulted in neglect of rural problems
pounded the problems of our cities; an
shortages of food, fossil fuels, and o

Inflation must be dealt with in t
lems. Otherwise, they are all too lik
The attempted reliance on monetary and
recent past has done just this, withou
on inflation itself.

Housing has been a double victim
rising costs have priced a growing pro

subsidies for the wealthy, not at eliminatin
programs for low and moderate income people.
all housing subsidies are tax subsidies, and
inantly to relatively affluent people.

We need a balanced housing program -- b
of housing needs. This means priority for l
and for rural housing, and particularly, att
housing needs of the elderly.

The first immediate step to take is to
for full use of all available housing subsid
means additional appropriations by the Congr
expansions authorized in the Housing and Urb
of 1974. Perhaps more important, it require
affirmative action by the Departments of Agr
and Urban Development to see that the existi
to the fullest possible extent.

Concurrently, we urge the adoption of a
approach so that housing production can be r
nearly adequate level. Particular attention
meeting the credit needs in rural areas. We
financing, at low rates of interest, as a ma
mortgage money and lowering total housing co
and similar investments, should be regarded
tures, and handled in a separate federal cap
to portray realistically their nature and co

NATIONAL RURAL HOUSIN

STATEMENT ON INFLATION, HOUSIN

NRHC views inflation as a sympto
of a broader set of economic problems
sistence of poverty and near-poverty
rates of unemployment that are unacce
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youth; the misallocation of resources
resulted in neglect of rural problems
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Inflation must be dealt with in
lems. Otherwise, they are all too li
The attempted reliance on monetary an
recent past has done just this, witho
on inflation itself.

Housing has been a double victim
rising costs have priced a growing pr
now the vast majority -- out of the m
The median price of new housing rose
$35,400 in June 1974, an increase of
Only about 12 million of the 55 milli
have enough income to purchase new ho
and financing for them were available
Americans is worse than even these fi
income of families living outside met
1973, compared to $12,961 for familie

The situation of the elderly is particular
Many states have effectively recaptured recent
SSI payments. In 1971 elderly owners paid more
their incomes for property taxes alone, often b
skimp on utilities and maintenance. More than
income elderly owners live in rural areas. The
particularly severe, and programs to assist the
existent. Moreover, rural elderly renters are
to live in substandard housing than are those u
elderly household in four lacks essential plumb

Second, housing has been a victim of infla
the impact of the federal government's monetary
fallen hardest on housing. We question the eff
ing interest rates to deal with inflation in an
who can afford it continue to borrow, and the h
borrowing is passed on to consumers in the form
prices, and more inflation. But, for a policy
worked, housing has paid a heavy price: starts
more than 40% in the past year, and building pe
1974 were issued at a rate of barely 1 million

NRHC urges that the major purposes of the
housing and construction be (1) on how to deal
housing problems, particularly those of rural a
people, without contributing to further inflati
how to undo the damage which has already been d
We would hope that the conferences on other sub
take a similarly broad view, so that the Septem
gathering can be as fruitful as possible.

no direct impact on providing Americans
meet their basic needs, including shelt
employment, health care. If total hous
too high -- and we are not convinced th
should look first at cutting tax subsid
at eliminating or strangling programs f
income people. Four-fifths of all hous
subsidies, and they go predominantly to
people.

We need a balanced housing program
housing needs. This means priority for
for rural housing, and particularly, at
needs of the elderly. One third of our
metro areas, for example; but two third
housing. The Rural Housing Alliance ha
for roughly 30 million new housing unit
million units are needed outside metro
these require subsidy. This means a to
duction of 3 million units annually, wi
areas: 300,000 for low income people a
income people. (See tables attached to
production is less than half this level
lags even further behind.

The first immediate step to take i
for full use of all available housing s
means additional appropriations by the
expansions authorized in the Housing an
of 1974. Perhaps more important, it re

Particularly in small towns and rural areas
can be further reduced by providing adequate pub
water systems, so that houses can be built at mo
ties, rather than requiring large lots, often o

We conclude by commenting briefly on some o
general questions on the agenda:

A. Inflation is a major problem to the poo
those on fixed incomes. Primary attention shoul
given to its impact on poor people.

B. The major cause of this inflation has b
and scarcity of critical materials, especially f
Restrictive agricultural policies, the Russian w
oil embargo and excessive profits, particularly
worsened an already difficult situation.

C. The federal budget should be increased,
to provide compensation for the impact of inflat
people. These increases could be more than offs
the defense budget and by selective tax increase
on capital gains, accelerated depreciation, and

Federal regulations, such as those which ke
artificially high, could well be reviewed and re
the current tendency to single out environmental
a culprit.

ESTIMATE OF HOUSING NEEDS IN THE 1970'S,
ND IN NON-METROPOLITAN AREAS
(Millions of Units)

d	Total	Subtotal: Non-Metro Areas	(%Represented by Non-Metro Portion)
the decade:			
	63.5	19.6	(31%)
	(4.3)	(2.5)	(58%)
es)	(4.3)	(1.2)	(28%)
	5.2	2.8	(54%)
	(1.3)	(1.0)	(77%)
tock:	68.7	22.4	(33%)
andard)	(5.6)	(3.5)	(62%)
ecade tuation:			
	13.2	3.1	(23%)
	3.7	.4	(11%)
ost:			
osses	2.5	.7	(28%)
andard	2.7	1.3	(48%)
	1.7	.9	(54%)

OUSING PRODUCTION AND HOUSING NEED
ands of Units Annually)

al			Non-Metropolitan	
-72 tion	Ratio of Production to Needs	Estimated Needs	FY '71-72 Production	Ratio of Production to Needs
7 2]a/	85% [68%]a/	1,000	849 [577]a/	85% [58%]a/
4	27%	300	62	21%
3	56%	200	106	53%
7	41%	500	169	34%

nts.

le 1.5; total production for FY '71-72 from Construction
d production from HUD FY '73 Budget Summary and FmHA
its to non-metro areas based on analysis of various HUD
mes 42% of public housing units, 36% of rent supplement
f other HUD-assisted units go to non-metro areas); assumes

STATEMENT ON RURAL HOUSING

BY THE RURAL HOUSING ALLIAN

PREPARED FOR HOUSING AND CONSTRUCTION

ON INFLATION

ATLANTA, GEORGIA

SEPTEMBER 12, 1974

The Rural Housing Alliance endorses the housing and economic policy of the National and adds to that statement the following mea unemployment.

Unemployment and underemployment is as Nation's economy as inflation. Unemployment rural areas can be sharply curtailed by an e housing industry. The need for better housi obvious. Approximately 60 percent of the ba States exists in rural areas. The Farmers H estimates that the construction of one house of on-site and off-site employment in the co

Recognizing these facts the Rural Housi the following course of action:

1. Reduce the interest rate on Farmers rural housing loans. Representative Wr asked Secretary of the Treasury, Willia interest rate on Farmers Home Administr

and has been discarded. Because of this fa
Budget was based on an estimated average o
The loans actually made in fiscal 1974 ave
this level will be maintained, if not exce
1975. If Farmers Home is going to help 15
obtain homeownership loans in fiscal 1975,
the 1975 Budget, then an extra $500 millio
the amount provided in the Appropriation b

3. <u>The crucial sections of the rural part
Housing and Development Act need to be imp</u>
The 1974 Act brings parity to rural areas
rural housing program several forms of hou
viously available only through the urban h
For example, the bill authorizes rental su
financed rental and farm labor housing pro
non-profit sponsors of both types of proje
to borrow initial operating expenses up to
development costs. The ceiling on the siz
projects has been removed. All of these p
implemented promptly. This action will st
struction of rental and farm labor housing
ing available to families who cannot now a
Another section of the 1975 housing act th
importance to rural areas is the one that
make grants to non-profit organizations to
assistance in the development of low-incom
jects. Also authorized are seed loans to
zations to cover start-up costs. Both the
extend to rural areas the Section 106 assi
by HUD.

4. <u>The staff of the Farmers Home Administ
strengthened.</u> The number of FmHA homeowne
in fiscal 1974 dropped 20 percent below th
of the principal reasons for the decline w

a contractor - built house, to obtain decent
self-help housing program pays for itself bec
build their own houses the cost of constructi
therefore the interest credits on the loans t
for building materials are lower.

7. <u>The rural community water and sewer grant
utilized.</u> Adequate water and sewer systems a
the development of rural housing. The grant
appropriated for this purpose plus those that
available through the 1975 Agricultural Appro
should be promptly utilized.

Statement of Sidney Spector, Vice Pres

National Council on the Aging

Delivered To

Pre-Summit White House Conferenc

on Inflation and Housing

Stouffer Inn, Atlanta, Georgia

September 12, 1974

Chairman: Hon. James T. Lynn, Secret

Department of Housing and Urban Develo

Mr. Secretary:

I am Sidney Spector, Vice President of the Nati

and Chairman of its committee on housing for the eld

of an ad hoc coalition of organizations representing

intensely concerned with achieving good housing for

years. Among the organizations which have met for t

1. The American Association of Homes for the A
2. The American Association of Retired Persons
3. The American Gerontological Society
4. The B'nai B'rith Committee on Housing for t
5. The National Caucus of the Black Aged
6. The National Council on the Aging
7. The National Council of Senior Citizens
8. The National Retired Teachers Association

Professional and research assistance of a high

the U.S. Senate Special Committee on Aging.

We appreciate the opportunity to participate in

deeply that under your leadership and that of the U.

number of unique problems. Their incomes decline drast

illnesses. They are retired and unemployed. They suff

numbers. They are subject to isolation, loss of friend

disengagement.

These problems combine to form ~~a special need~~

no other age group incurs. And it is a need which requ

2. <u>Inflation hits older persons most savagely</u>.

Older Americans are the largest single group o

largest single income group below the national poverty

They are therefore doubly ravaged by an inflat

determined to control.

3. <u>Older Americans don't have time</u>.

There is a feeling that the basic problems of

solved before an adequate supply of housing for older p

Greenspan indicates that inflation developed over a per

require several more years before its decline is felt.

Mr. Secretary, older Americans do not have the

of inflation in the long run. We all know what John Ma

"the long run." And with older Americans it is even mor

As a matter of fact, older Americans cannot wa

basic problems of inflation in the relatively short run

5. <u>Housing designed for older persons has had</u>

<u>benefits</u>.

The evidence of ten years of research by g

indicates that housing specially designed for older

amenities, and located in a normal neighborhood - w

live - has produced such beneficial results as:

--Greater life satisfaction

--Reduced visits to health clinics

--Increased participation in the community

--More friendship patterns and less isolation

--Greater feeling of active middle age rather

6. <u>Housing for the elderly has had marked eco</u>

Of all the programs in the field of housin

people, housing for older persons has achieved the

greatest economic success.

Both under Section 202 and 236, success ha

nation. Problems of maintenance, rent payment, and

minimal in this field. Economic viability obtains

activities, health services, therapy programs, nutritio

designed to maintain independent living even when disabi

2. To achieve such choice all subsidy tools autho

should be used fully.

The Congress, with the cooperation of the Presi

Secretary of HUD, has now authorized a range of programs

part the housing needs of older people.

We urge the Administration - and the members of

Committees in the House and Senate - to take the followi

a. Request and enact full appropriations for t

housing program which has great potential for success,

realistically.

b. Appropriate the full authorization for Sec

on an accelerated basis until Section 8 is fully operat

with Section 8 could generate extensive housing for olde

c. Appropriate the full authorization of the

innovative Section 202 program and combine its use with

under the Section 8 program.

They need and want living arrangements whi

age at prices and rentals they can afford.

4. <u>The trauma of condominium conversions hits</u>

This point emphasizes further the need for

thousands of older Americans now live in older apar

being converted to condominium ownership. They are

savagely at the worst possible times of their lives

They must have available other facilities

5. <u>The administration of low and moderate inc</u>

In determining the policies for implementi

programs, the administration must be realistic abou

re-assessing maximum fair market rents, constructio

and speed of administrative processing.

We all know that any authorized and approp

hollow by regulations which inhibit accomplishment.

6. <u>More than sheer shelter is required</u>.

Housing alone does not provide a living en

Appropriations should be authorized and ma

senior centers related to housing developments; for

and social design components of future living arrange

This research should accompany our investment in hous

8. An Assistant Secretary for Housing for the E

To emphasize the special urgency we feel tha in this field should be centered in an Assistant Secr

The nature and scope of the problem merits t and prestige in the determination of housing policies

III. Summary Comments

Mr. Secretary, I know this conference was called the attack on inflation. But the housing needs of Am should not be viewed as a counter-inflationary mechan fulfillment of these needs for the long run.

It will take other mechanisms to counter the inf take additional tax revenue in certain areas; it may credit on a national basis.

But we do have the intellectual resources to mee I know that the older persons of this nation deserve approach to their problems and opportunities.

# # #

VII

Inflation and the Housing Industry

Presentation and Discuss
Special Housing Needs Pa

ROSE WYLIE, CHAIRPERSON, NATIONAL TENANTS OR

THE CHAIRMAN:

Are there questions of the panel

will move on to the special housing ne

believe our first speaker is Ms. Rose

Tenants Organization.

MS. WYLIE:

Mr. Secretary, my name is Rose W

of the National Tenants Organization.

able to join with you in discussing th

crisis which is now facing our nation.

representing the more than 300,000 org

are affiliated with NTO.

For middle-class Americans the

be headed toward a recession, but poor

themselves in a depression. It is inte

that while the cost of the finest steak

with voluntary restraint on wage incre

among these restraints must be nationa

In addition, we call for a national ba

conversions of existing units. This i

the most inflationary financial practi

industry today. It has become perfect

attempt to ease the economic crisis by

which increase unemployment has served

hundreds of thousands of families belo

while adding fuel to the rocket of inf

Clearly the past has shown t

connection between stabilizing the eco

needed units of housing and a full emp

It is our belief that existing constru

coupled with the policy of employing lo

unemployed workers represents the nucl

ment policy in the area of housing. T

One of the major contributors t

instability of the housing industry, and

to play an effective role in slowing infl

crisis of subsidized the housing programs

this administration and the Secretary to

which would bring financial relief to sub

and sponsors alike. Our experiences acro

tell us that there is major confusion amo

home buyers involved with the various HUD

is vital that the Secretary develop an ef

program for the citizens which HUD serves

way hopefully remove some of the obstacle

hamper the effectiveness of many of its p

A strong, active housing indust

our opinion a component of any anti-infla

Thank you, Mr. Secretary.

RONALD FROMAN, CHAIRMAN, NATIONAL ASSOCIA
HOUSING AUTHORITIES

THE CHAIRMAN:

Mr. Ronald Froman, Preside

Association of Indian Housing.

MR. FROMAN:

I'm Ronald Froman, Chairma

Association of Indian Housing Counc

to come to Atlanta. I don't know wh

relation to mortgage credit and in

things are totally and absolutely i

Indian areas because they are nonex

I would like to take this

of the things that we have here. T

occupied the biggest part of this c

history. Manifest Destiny ruled th

be obliterated or moved, and this w

outlined by Mr. Albert of "Benign Neglect." thereabouts, the American Indian was allowed 1930 the trust responsibility of the America removed from the War Department to Interior. became effective, public housing, by the Act Mr. Burke related that there were commitment 1949 of so many public housing. Public hous a reality in Indian country in 1962. For Ok in 1968. Those lands that those people hold not subject to mortgage. There's not one mo and there's not one bank in this room who ho on tribal trust land or individual trust lan

The effort to build these houses began said, during the 60's. There's approximatel completed today. There are some in the pipe is only for low-income Indian families. For who do not qualify as low income, they have those lands. They have to go to the city;

we would continue. We worked ex

gressional people, senators, in

aside for public housing for Ind

part of the '74 Housing Act. I

invited to the White House to wi

act. I was very proud; my paren

went home and the very next day

HUD--put a moratorium on all tho

Thank you, Mr. Secreta

THE CHAIRMAN:

The next speaker -- I

one thing. If there's a morator

things that we've done and what

either the Section VIII Program

said we were going to use the pu

and announced money, I would lik

have never left Oklahoma City.

THE CHAIRMAN:

Are they still in process?

MR. FROMAN:

They're not in process. The

right now by the Oklahoma City office

office in Dallas.

THE CHAIRMAN:

Well, let me find out about

MR. FROMAN:

Thank you.

JOHN B. WILLIAMS, PRESIDENT, NATIONAL A
OF HOUSING AND REDEVELOPMENT OFFICIALS

THE CHAIRMAN:

Our next speaker is Mr.

President of the National Associa

Redevelopment.

MR. WILLIAMS:

Thank you, Mr. Secretar

Williams. I'm President of the N

Housing and Redevelopment Officia

statement, which I will read. Bu

reminded of the ratio when our Pr

hours yesterday playing nine hole

that period, he tried to make a h

comment to the gold pro was he'd

office tomorrow to get out of one

of the housing industry, it would be one r

it reflects sadly on the ability of the Ar

to be adequately housed. We have some obs

make. An adequate supply of housing that

American family could afford is critical t

being of our society. Without it, America

really choose job opportunities; they cann

they cannot save and insure their future.

raise their families in suitable environme

cannot, in short, participate in the frui

economy.

It will come as no surprise, of

our choices must be made between the full

inflation and the assurance of an adequate

housing for the American family. The mos

hoped for is the best of both possible wo

housing, housing will continue to suffe

vagaries of recession, depression, and i

American will continue to be ill housed.

must be initiated in our minds and the

houses. The long-term, fixed-interest m

of housing construction must be changed

fluctuations in the money market and acc

of the home buyer to pay shelter costs a

the family needs.

Housing finance must compete c

market for savings, we believe. The in

finance needs to be adjustable in recogn

changes and patterns. The housing needs

people can only be met through a balance

produces new housing and serve the housi

The elderly, the handicapped, the low-in

The existing supply of housing i
out, as we all know -- outmoded and mispla
be, represents the largest single investme
in America. If we are genuinely concern
conservation of resources and full utiliza
assets, then it's high time that we dèvelo
agressive policies for better utilizing th
we already have going in this country.

The housing industry is in need
suppliers, the manufacturers, the builders
the speculators, the financiers, the labor
highly diverse, segmented, and flexible co
an industry which has been admirably equip
with the diversity as well as the sameness
communities or local economies. It has b
to deal with the problems of housing in th

innovation, good planning, proper mainte

investment and housing conservation and

is from these observations that we have

to make, both for the short term and the

Through the Federal Reserve Sy

market, tax incentives, and direct subsi

assurances need to be provided for a min

which new houses would be produced. Tha

be based upon the projection of the rate

tion, replacement of housing removed fro

and special growth development and housi

Two. Primary emphasis in the

be placed upon the encouragement and sup

and full utilization of the existing hou

The federal government must provide dire

judgment, insured loans, tax incentives

Four. At the same time, Federal

encouraging the conservation of existing h

developed. Programs of federal assistance

of the public and private services and fac

serve and reinstate communities into sound

in which the housing is located.

Five. Immediate steps should be

initiate major changes in the housing fina

recognize the changes in the money market,

capacities of families to pay for houses.

must come from institutions of the federal

the Federal Home Loan, bank boards, Federa

Administration, and from the Federal Reser

And finally, Mr. Secretary, our

number six--immediate initiative by federa

and offices needs to be taken to bring hou

mainstream of the nation's economic policy

devoted to the full utilization of our ex
resources. It is only by this latter step
effectively capitalize on the investment
made, both public and private, as well as
for our current and future housing needs.

Mr. Secretary, I would like to
saying that I thought a little levity mig
at this meeting, as well as my preference
noted earlier. I got the notion that it
a bad idea on being inventive and creativ
design, and create a handsome $18 bill in
system of this country. But I was fright
Mr. Secretary, from the fear that people
by simply saying to me, "How would you li
sixes or two nines," and that wouldn't wo

THE CHAIRMAN:

Mr. Burnett.

MR. BURNETT:

I'm John Burnett, Director of State Housing Agencies. I should mentio perhaps, that I represent the agencies o states, mostly created in the last four that are engaged in raising money in the market and investing it in housing for l families. This really reflects, I think response to the federal government's urg assume their share of responsibility for assistance for housing to aid those that mental assistance to get this housing. right now are authorized to borrow somet billion dollars to put into housing if w on the market at a price we could afford

We financed some 20 percent

assisted housing under the 236 Progra

year period starting 1968, when gover

housing production was at the level d

'68 act. Our point here is to urge t

government adhere to and reaffirm the

lished just three weeks ago by the en

Housing and Community Development Act

government is going to take measures

and otherwise to restore the level of

housing for the lower-income families

level, whatever they conclude that is

substantially above the currently dra

level of the production of such house

In doing this, I would like

Senator Brooke's suggestion that we e

in urging this, we don't think we err. We d

to be heedless of the very legitimate concer

over-shadowing problem of inflation. One po

been emphasized here, and I think it's a ver

is that the housing industry from our standp

importantly those who are dependent for hous

housing industry, certainly has contributed

its share trying to cope with the problems o

This is reflected not only in the 11 percent

rate in the construction industry -- well ab

national level -- and the distressing list o

concerning many of the businesses that are i

but perhaps most drastically among those who

housing. Senator Brooke mentioned the fact

20 percent of our families cannot afford dec

Added to that is the new surge in the demand

That is not to blink at the fact tha
inflationary facts, but it is certai
with what would come about through t
activity elsewhere.

It is also perhaps fair to ment
is done to enlarge housing productio
that there will be an inflationary c
come about through the severe scarci
the pressure that that will place up
prices for housing that is available

Now, the specific things that w
needs first of all we strongly join
urging the federal government to set
to put into operation the new federa
incorporates the administration's vi
federal government's role should be
such things and the nature and volume

extent. The purpose for which this moratorium

imposed has largely been served. But perhaps

contribution will be kept in mind as we look a

bear the burdens, and certainly they must be b

the burdens of dealing with inflation are to b

We urge, then, that the new federal act be put

operation, that there be a clear statement tha

the intent, that due to the problems of inflat

will not, three weeks after the new law, issue

statement or reaffirm the statement of the pub

to meet essential housing and that there will

declared that there will be in effect a morato

Secondly, I think we have to state that e

the federal program of assistance for housing

into prompt and effective operation we should

the Secretary and the Assistant Secretaries for

inducements for channeling available

investments are necessary, and some

be taken, perhaps if not by a group

There can be a concerted purpose in

of capital available for housing, or

for the channeling of credit or ince

and those institutions which invest

certainly urge that.

With respect to Congressman Con

earlier, we also urge that there not

nullifying step taken--nullifying fr

of resuming housing production by ta

existing incentives which bring priv

indispensable private equity investm

housing until some alternate form of

private investment is necessary. Wi

generally is down 40 percent, but, as has als
pointed out, the level of housing production
income families is down 60 percent.

One of those areas that we suggest real
be focused upon is a measure whereby the fede
ment can help preserve the existing housing s
relates simply to preserving physical structu
rehabilitating the existing housing structure
also a measure to stabilize or restore neighb
because existing housing available for low in
families can be destroyed both by inadequate
or by the deterioration or destruction of the
hood in which it is located.

We also would encourage any measures th
facilitate home ownership rather than rental
since home ownership, at least in our experie
results in far more effective measures for th
preservation of existing housing stock, and w

looking directly at productivi

technology, looking at the building

regulations, concerning ourselves wi

problem of how to provide an assurec

employment is in the construction in

looking at cost consequences on hous

that come about with the disorientat

presently in the building materials

Thank you, Mr. Secretary.

THE CHAIRMAN:

Thank you, Mr. Burnett.

I would like to make just one p

no more dissension with regard to Se

us worked too hard with respect to i

intend to utilize it to the fullest.

given to me that the Community Devel

WILLIAM A. BARRETT, (D), REPRESENTATIVE FRO
1ST DISTRICT OF PENNSYLVANIA

THE CHAIRMAN:

Congressman Barrett.

MR. BARRETT:

Mr. Secretary, we have had three
here this afternoon talking about 236 a
I've been an advocate of 235 ever since
it has been one of the most misundersto
think ever in the housing category. Al
since it's been inaugurated was that th
lives out the 40-years of maturity liter
$39,000 from the government. Well, tha
an exceptional case. But they have nev
40-year maturity that five families may
Five families may have gone into that p
235 property, where there are children

40 years we may have taken care of

five families. I think it is a tr

program, and I hope it is continue

THE CHAIRMAN:

Thank you, Congressman.

SIDNEY SPECTOR, VICE PRESIDENT, NATIONAL COUNCIL ON THE AGING

THE CHAIRMAN:

I think our last speaker of the morni

Spector, Vice President of the National Co

Aging.

MR. SPECTOR:

Mr. Secretary, being the last speaker

be exceptionally brief.

I do have the honor of representing h

National Council on the Aging and also an

coalition of all the coalitions representi

citizens in this country. They represent

10 million members in the nation, now, wit

23 million over the age of 60. And we app

here at the meeting, and we know that unde

ship this meeting will make a difference.

a special area of need that does requir
attention, and the reasons for it are t
to the larger number of older people, w
problems of low income, of retirement,
illness, of unemploymemt, of widowhood,
of biosocial disengagement, all of whic
create a problem and a need that no othe
society faces.

With that in mind, older Americans
largest single group on fixed incomes as
large group in the poverty category, and
doubly ravaged by soaring inflation. Th
do not have the time to solve the proble
in the long run. As Mr. Greenspan has m
that inflation has been a long time in c
might be a long time in solving. And we

or a straight outright rent of one kind or an
must have subsidy at today's costs. And it h
indicated that the housing that we have devel
the whole has been successful, both economica
socially.

The need is for older persons to have th
to choose the housing that they wish, and thi
major recommendation which others have empha
achieve such choice, the administration shou
fully all of the deep subsidy tools provided
Congress. Full appropriation should be sough
Section 8 Program, which we believe has grea
for success, and also for the 202 Program an
236 Program for the elderly, both as indepen
and combined with Section 8 subsidies.

In addition, grants should be available
persons to rehabilitate the homes in which th

condominiumized. These older people a
savagely and must have other facilitie
rents that they can afford. So, the k
of construction costs, maximum fair ma
administrative processing must be cons
realistically and accelerated in terr
economic conditions.

Now, I just want to then empha
Mr. Secretary, that we ought not, mor
economically, utilize the housing nee
older persons as a counter-inflation
necessary--and I think it is necessar
to use perhaps additional taxes and
And I disagree with Mr. Greenspan in
the intellectual resources with which
rational approach to credit allocatio
that the administration and the Secre
of Congress here will be sensitive to

DISCUSSION

THE CHAIRMAN:

Before we go to lunch, Mr. Georgi clarification in our questionnaire. Ap is one answer there that says a hundred the organized labor delegates were for controls.

Bob, would you explain it, or you

MR. WARD

This single sheet of paper--this questionnaire results, and the single s that

organized labor--of course this is inco recognize that this is a mistake, but, it's a very, very serious mistake so fa cerned, because question 18 has to do w control inflation, and "Which of the fo you favor most?" And the answer to que

in. Furthermore, we think that it' correction was made in this manner throw this away, and the record sti we voted in favor, the labor organi tives here, in favor of mandatory p and I would like to see some way of in the record other than these shee we are not in favor of mandatory pr

THE CHAIRMAN:

Thank you, sir.

(Break for lunch.)